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TWENTY-SIXTH MEXICO-UNITED STATES INTERPARLIAMENTARY CONFERENCE

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FOREWORD

The background materials printed in this booklet are for the exclusive use of the U.S. delegation to the Twenty-sixth Mexico-United States Interparliamentary Conference meeting in Colorado Springs, Colorado, May 30-June 2, 1986.

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I. TWENTY-SIXTH MEXICO-UNITED STATES INTERPARLIAMENTARY CONFERENCE

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CONFERENCE AGENDA

ECONOMIC AFFAIRS COMMITTEE

-- Economic Relations Between U.S. and Mexico

-- Programs for Economic Reordering in Mexico and the United States

-- Trade

-- Foreign Investment (direct and indirect)

-- International Debt

-- Economic Implications of Earthquake Reconstruction

-- Economic Aspects of Border Issues

-- Economic Aspects of Tourism

POLITICAL AND SOCIAL AFFAIRS COMMITTEE

-- Relations Between the United States and Mexico

-- International Political Matters

* General

* Latin America

* Central America

-- Migrant Workers

-- Cooperation Against Drug Trafficking

-- Disarmament

-- Human Rights

-- Political Aspects of Earthquake Reconstruction

-- Law of the Sea and Fishing, Border Issues of a Legal Nature

-- Political Aspects of Tourism

-- Ecology

-- Cultural, Scientific, Technological Cooperation

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background notes

Mexico

United States Department of State
Bureau of Public Affairs

June 1983

Official Name: The United Mexican States

PROFILE

People

Noun and adjective: Mexican(s). **Population** (1982 est.): 76 million. **Annual growth rate** (1983 est.): 2.8%. **Ethnic groups:** Indian-Spanish (mestizo) 55%, American Indian 29%, Caucasian 10%. **Religion:** Roman Catholic 97%. **Language:** Spanish. **Education:** *Years compulsory*—10. *Literacy*—74%. **Health:** *Infant mortality rate*—55.9/1,000 (1980). *Life expectancy*—65.4 yrs. (1980). **Work force** (21,500,000, 1983): *Agriculture, forestry, hunting, fishing*—26%. *Manufacturing*—12.8%. *Commerce*—13.9%. *Services*—31.4%. *Mining and quarrying*—1.3%. *Construction*—9.5%. *Electricity*—0.3%. *Transportation and communications*—4.8%.

Geography

Area: 1.978 million sq. km. (764,000 sq. mi.); about three times the size of Texas. **Cities:** *Capital*—Mexico City (pop. 15 million, 1979). *Other cities*—Guadalajara (2.5 million), Monterrey (2 million), Puebla de Zaragoza (710,800), Ciudad Juarez (625,000). **Terrain:** Varies from coastal lowlands to high mountains. **Climate:** Varies from tropical to desert.

Government

Type: Federal republic. **Independence:** First proclaimed September 16, 1810; republic established 1822. **Constitution:** February 5, 1917.

Branches: *Executive*—president (chief of state and head of government). *Legislative*—bicameral Congress. *Judicial*—Supreme Court, local and federal systems.

Political parties: Institutional Revolutionary Party (PRI), National Action Party (PAN), Popular Socialist Party (PPS), Unified Socialist Party of Mexico (PSUM)[1], Mexican Workers Party (PMT), Socialist Workers Party (PRT), Social Democratic Party (PSD), the Authentic Party of the Mexican Revolution (PARM)[2]. **Suffrage:** Universal over age 18.

Administrative subdivisions: 31 states and the federal district.

Flag: Green, white, and red vertical bands. An eagle holding a snake in its beak and perching on a cactus is centered.

Economy

GDP (1982): $162 billion (9.3 trillion pesos at 57.1757/US$1). **Per capita GDP:** $2,158 (123 million pesos). **Annual real GDP growth rate** (1982): −0.2%. **Inflation** (1982): 58.9% average for the year; 98.85% annual rate in year ending December 1982.

Natural resources: Petroleum, silver, copper, gold, lead, zinc, natural gas, timber.

Agriculture (7.3% of 1982 GDP, including fishing and forestry): *Main products*—corn, beans, oilseeds, feedgrains, fruit, cotton, coffee, sugarcane, winter vegetables. *Total land in farms*—23 million hectares (57.1 million acres).

Industry (1982): Manufacturing (20.8% of GDP), commerce (23.0%), services (28.4%), transportation and communications (6.3%), petroleum and mining (8.1%).

Trade (1982): *Exports*—$21 billion: petroleum and derivatives (75%), coffee, cotton, fruits, vegetables, manufactures, and mining (25%). *Major markets*—US (63.5%), EC, Japan. *Imports*—$15 billion: grains, machinery, equipment, industrial vehicles, intermediate goods. *Major suppliers*—US (74.5%), EC, Japan.

Average exchange rate (1982): 57.1757 pesos/US$1; free rate, 147.9–149.4 pesos/US$1; controlled rate, 108.26–108.36 pesos/US$1.

Membership in International Organizations

UN, International Civil Aviation Organization (ICAO), Seabeds Committee, Inter-American Defense Board (IADB), Organization of American States (OAS), Latin American Integration Association (ALADI), INTELSAT, and several others.

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[1]The PSUM, founded November 8, 1981, is a merger of five parties on the left: the Communist Party of Mexico, the Socialist Revolutionary Party, the Mexican Peoples Party, the Movement of Socialist Action and Unity, and the Movement of Popular Action.

[2]The Federal Elections Commission canceled provisionally the registrations of the PSD and the PARM because they both failed to obtain the minimum 1.5% of the national votes in the 1982 presidential election.

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GEOGRAPHY

The topography of Mexico ranges from low desert plains and jungle-like coastal strips to high plateaus and rugged mountains.

Beginning at the Isthmus of Tehuantepec in southern Mexico, an extension of a South American mountain range runs north almost to Mexico City, where it divides to form the coastal Occidental (west) and Oriental (east) Ranges of the Sierra Madre. Between these ranges lies the great central plateau, a rugged tableland 2,400 kilometers (1,500 mi.) long and as much as 800 kilometers (500 mi.) wide. From a low desert plain in the north, it rises to 2,400 meters (8,000 ft.) above sea level near Mexico City.

Mexico's climate is generally more closely related to altitude and rainfall than to latitude. Most of Mexico is dry; only about 12% of the total area receives adequate rainfall in all seasons, while about one-half is deficient in moisture throughout the year. Temperatures range from tropical in the coastal lowlands to cool in the higher elevations.

PEOPLE

Mexico is the most populous Spanish-speaking country in the world and the second most populous country in Latin America (after Brazil). More than one-half of the people live in central Mexico. Many Mexicans emigrate from areas lacking in job opportunities—such as in the underdeveloped southern states and the crowded central plateau—to the industrializing urban centers and the developing border areas of the northern states. According to 1980 estimates, the urban population of Mexico City may have grown to 15 million, which would make greater Mexico City the largest urban concentration in the world. The northwestern region also had a sharp rise. Guadalajara, Monterrey, and other urban areas also showed large increases.

Education in Mexico is being decentralized and expanded. A major attempt is underway to promote educational activity in rural areas, and the increase in school enrollments during the past two decades has been dramatic. Education is mandatory from ages 6 through 14 or until primary education is completed. Primary enrollment from 1970 through 1980 increased from less than 10 million to 16 million. In 1980, 86% of the population between ages 6 and 14 were in school. Enrollments at the secondary level have more than quintupled since 1955. Estimates of such increases suggest that enrollments increased from 1.4 million in 1972 to as many as 3.4 million by 1981. Between 1959 and 1980, enrollments in institutions of higher learning increased from 62,000 to 770,000.

At the heart of its cultural expression are Mexico's history and quest for national identity. Contemporary artists, architects, writers, musicians, and dancers continue to draw their inspiration from a rich history of Indian civilization, colonial influence, revolution, and the development of the modern

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Mexican state. Artists and intellectuals alike emphasize the problems of social relations in a context of national and revolutionary traditions.

HISTORY

An advanced Indian civilization existed in Mexico before the Spanish conquest. Major Indian cultures included the Olmec, the Mayan, the Toltec, and the Aztec. Hernan Cortes conquered Mexico in 1519–21 and founded a Spanish colony that lasted nearly 300 years. Independence from Spain was proclaimed by Father Miguel Hidalgo on September 16, 1810, and the republic was established on December 6, 1822. Prominent in the war for independence were Father Jose Maria Morelos; Gen. Augustin de Iturbide, who vanquished the Spaniards and ruled as emperor for a short period; and Gen. Antonio Lopez de Santa Ana, who controlled Mexican politics from 1833 to 1855.

Santa Ana was Mexico's leader during the conflict with Texas, which declared itself independent from Mexico in 1836, and during the war with the United States, declared in 1846. The presidential terms of Benito Juarez (1858–71) were interrupted by the period of the empire. Archduke Maximilian of Austria, who was established as emperor of Mexico in 1865 by Napoleon III of France, was deposed by Juarez and executed in 1867.
Gen. Porfirio Diaz was president during most of the period between 1877 and 1910.

Mexico's drastic social and economic problems erupted in the revolution of 1910. Prominent leaders in this revolution—some were rivals for power—were Francisco I. Madero, Venustiano Carranza, Pancho Villa, Alvaro Obregon, and Emiliano Zapata.

GOVERNMENT

The constitution of 1917 provides for a federal republic with a separation of powers into independent executive, legislative, and judicial branches of government.

The executive branch is dominant. Executive power is vested in the president, who promulgates and executes the laws of the Congress. The president also legislates by executive decree in certain economic and financial fields, using powers delegated from the Congress. The president is elected by universal adult suffrage for a 6-year term and may not hold office a second time. There is no vice president; in case of the removal or death of the president, a provisional president is elected by the Congress.

Congress is composed of a Senate and a Chamber of Deputies. Consecutive reelection to the Congress is prohibited. Sixty-four senators (two from each state and the federal district) are elected to 6-year terms.

Under constitutional and legislative reforms adopted in 1977, the Chamber of Deputies was enlarged in the 1979 elections (from the former 237 members) to allow 300 deputies to be elected in single-member districts by a plurality system and 100 deputies to be elected by proportional representation from the minority parties. This reform is intended to provide minority parties with greater representation in the Chamber of Deputies. Deputies serve 3-year terms. The Mexican Congress is empowered to legislate on all matters pertaining to the national government.

The judicial system consists of local and federal courts and a Supreme Court. Supreme Court justices are appointed by the president and approved by the Senate.

Mexico has 31 states and a federal district. Each state is headed by an

Photo courtesy Mexican National Tourist Council

Popolcatepetl Volcano as viewed from Tlalmananco, State of Mexico.

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elected governor. Powers not expressly vested in the federal government are reserved to the states.

Principal Government Officials

President—Miguel **de la Madrid** Hurtado

Ministers

Government (Interior)—Manuel **Bartlett**
Foreign Relations—Bernardo **Sepulveda** Amor
National Defense—Gen. Juan **Arevalo** Gardoqui
Navy—Adm. Miguel Angel **Gomez** Ortega
Finance—Jesus **Silva Herzog**
Programming and Budget—Carlos **Salinas** de Gortari
Energy, Mines, and Parastate Industry—Francisco **Labastida** Ochoa
Commerce and Industrial Development—Hector **Hernandez** Cervantes
Agriculture and Water Resources—Horacio **Garcia** Aguilar
Communications and Transportation—Felix **Valdez** Rudolfo
Urban Development and Ecology—Marcelo **Javelly** Girard
Public Education—Jesus **Reyes** Heroles
Health and Public Assistance—Guillermo **Soberon** Acevedo
Labor and Social Welfare—Arsenio **Farell** Cubillas
Agrarian Reform—Luis **Martinez** Villicana
Tourism—Antonio **Enriquez** Savignac
Fisheries, Department of—Pedro **Ojeda** Paullada
Federal District, Department of—Ramon **Aguirre** Velasquez
Attorney General, Office of the—Sergio **Garcia** Ramirez
Attorney General for the Federal District—Victoria Adato de **Ibarra**
Comptroller General—Francisco **Rojas**

Ambassador to the Organization of American States (OAS)—Rafael **de la Colina**
Ambassador to the UN—Porfirio **Munoz** Ledo
Ambassador to the United States—Jorge **Espinosa** de los Reyes

Mexico maintains an embassy in the United States at 2829 - 16th Street NW., Washington, D.C. 20009 (tel. 202-234-6000). Consulates general are located at Los Angeles, San Francisco, Chicago, New Orleans, El Paso, New York, and San Antonio, and consulates (partial listing) at Denver, Miami, Boston, Detroit, St. Louis, Philadelphia, and Dallas.

Further Information

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse unofficial publications.

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POLITICAL CONDITIONS

President Miguel de la Madrid Hurtado was elected in July 1982 and assumed office on December 1. De la Madrid, a lawyer, has been a university professor, finance director for PEMEX, director general for credit at the Treasury, Undersecretary of the Treasury, and the Secretary of Programming and Budget.

The *Partido Revolucionario Institucional* (PRI)—Institutional Revolutionary Party—has been the dominant political force in Mexico since 1929; not only all of its presidential candidates but almost all of its candidates for congressional and state offices have been elected. The PRI's success at the polls generally is attributed to effective grassroots organization and an ability to identify itself with the aspirations of the Mexican people for economic and social progress. PRI membership is taken from labor, agrarian, and popular groups, from which candidates for elective office are selected. The PRI faces several opposition parties, but they are small and generally ineffective.

Significant political themes of the de la Madrid administration have included an emphasis on economic austerity, decentralization, a drive against corruption in government, passage of a new libel law, and reorganization of all police forces.

ECONOMY

Mexico's economy is going through a particularly difficult period. The government is adopting strong economic adjustment measures. Following 2 years of economic growth, in excess of 8%, in 1982 Mexico began to experience severe economic problems resulting in a sharp decline in economic growth. To restore economic growth, the government has adopted a series of adjustment measures and concluded an agreement with the International Monetary Fund (IMF). After 2–3 years of austerity and adjustment, the Mexican economy is expected to enter a period of renewed economic growth.

During the 1970s, the economy experienced difficulties largely as a result of an ambitious public expenditure program that could not be financed by

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domestic savings, causing the government to borrow substantial funds from abroad. At the end of the Echeverria administration in 1976, Mexico's international debt had risen to $30.2 billion. As a result, the government was forced to let the peso float downward from the rate of 12.50 pesos to the dollar (a rate in effect since 1954) to about 22.50 pesos to the dollar.

The Lopez Portillo administration (1976–82) initially restored confidence in the business community and in the economy. A major element in restoring confidence was exploitation of major petroleum deposits. The growth rate returned from the low level of 2% per year in 1976, passing its previous level of 6% per year, reaching 7%–8% in 1980–81. However, inflation rose to almost 30% in 1979 and 1980. Unemployment and underemployment remained high.

Declining international petroleum prices in mid-1981 challenged Mexico's ability to finance large public sector expenditures that were the key to achieving President Lopez Portillo's "Global Economic Plan." Rather than reduce government outlays, the Lopez Portillo government increased public sector spending by short-term borrowing from international capital markets. With confidence in Mexico's economic outlook eroding because of higher inflation rates, increased government spending, and growing government deficits, capital flight picked up sharply in late 1981 and early 1982, forcing a devaluation of the peso on February 18, 1982, to about 45 pesos to the dollar.

Although the Lopez Portillo government responded to the situation with an adjustment program, Mexico's external creditors became concerned that the country's efforts at self-discipline were not yielding the desired results. International lenders indicated a growing reluctance to increase their exposure in Mexico, and rumors of another devaluation of the peso continued to spread. Major price increases for several key products were announced in August, causing apprehension that these price increases would trigger another wage-price spiral. On August 5, a new three-tier exchange rate system was announced after mounting pressure on Mexico's foreign currency reserves caused another peso devaluation. In early September, the Lopez Portillo government imposed full currency controls, nationalized domestic banking institutions, and set up an exchange rate system consisting of a "preferential" exchange rate for external debt servicing and essential imports and a "controlled" rate for all other transactions.

Faced with a financial crisis, President de la Madrid has announced a stabilization program in keeping with the agreement Mexico reached with the IMF in November 1982. Under this agreement, Mexico will receive from the IMF, over a 3-year period, a $3.9 billion loan in return for its compliance with the terms and conditions of the IMF agreement.

The Government of Mexico is committed to reduce the public sector deficit from 16% to 8.5% of the gross domestic product (GDP) in 1983. Mexico must rationalize revenues and expenditures by increasing prices on public sector goods and services. The government has eliminated currency controls, adopted a more realistic exchange rate, and obtained an agreement on restructuring a portion of its more than $80 billion debt. The government has restructured an estimated $20 billion of principal on public sector debt maturing between August 1, 1982 and December 31, 1984.

Complementary to Mexico's agreement to undertake the basic structural reforms outlined in the IMF agreement is the decision by commercial banks to lend Mexico an additional $5 billion. Also approved are incremental credits and guarantees from official sources, which might amount to about $2 billion. These credits are in addition to the assistance package organized by the United States in August 1982, which included prepayment for oil deliveries to the U.S. Strategic Petroleum Reserve, commodity credits, and a Bank of International Settlements (BIS) bridge loan.

It is anticipated that Mexico will experience economic dislocations as a result of the present recession. Reduced domestic buying power will diminish local sales and Mexican industry will have to seek export opportunities abroad. Import regulations and scarcity of foreign exchange will continue to keep import levels down. In 1982, Mexico's imports from the United States fell by an estimated $6 billion and, for the first time, Mexico ran a trade surplus of $3.8 billion with the United States.

Agriculture

Mexico's agrarian reform program was begun more than 50 years ago, and almost all available land has been distributed. Raising the productivity and living standards of subsistence farmers has been slow, however. Self-sufficiency in basic crops such as corn and beans is being stressed by the government, but emphasis is also given to export crops such as coffee, tomatoes, and other winter vegetables. Mexico's agriculture suffers a drought in 4 years out of every 10. In poor years, significant amounts of corn, wheat, feedgrains, and oilseeds must be imported.

Photo courtesy Mexican National Tourist Council

Giant stone warrior of Tula, the ancient Toltec capital.

Mineral and Energy Resources

Mexico is rich in mineral and energy resources, and mineral exports are an important element in foreign trade. A leading producer of silver, sulfur, lead, and zinc, Mexico also produces gold, copper, manganese, coal, and iron ore. The discovery of extensive new oil fields in the coastal regions along the Gulf of Mexico enabled Mexico to become self-sufficient in crude oil in 1974 and to export increasing amounts of petroleum. Recent estimates put Mexico's potential petroleum reserves as the third or fourth largest in the world.

Manufacturing and Foreign Investment

Mexican industrial development was led by advances in manufacturing, increases in production, diversification, and integration of processes. Manufactures now account for about one-fifth of the GDP. Important gains have been made in the production of cement, aluminum, artificial fibers, chemicals, fertilizers, petrochemicals, and paper.

The 1973 law governing direct foreign investment in Mexico requires

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Mexico City's famous "Angel" on the Paseo de la Reforma, with a view of the American Embassy—the white marble building to the left.

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majority Mexican ownership in all new investments except those deemed to be in the national interest by a commission established by the law. In general, the law codifies the existing laws, decrees, and regulations that previously governed the role of foreign direct investment in Mexico.

The government continues to welcome foreign private investment that complements domestic investment, especially when it brings needed technology, helps increase exports or substitutes for imports, uses a high percentage of Mexican components, aids in the economic development of a depressed region of the country, or is labor intensive. The de la Madrid administration has said publicly that it will be flexible in applying the law.

Trade and Development Aid

Another factor in Mexico's development has been the slight success in increasing and diversifying the nature of its exports. Crude oil is the leading export. Manufactures, including chemicals, transport equipment, textiles, shoes, iron, steel, and electric and electronic products make up about one-eighth of Mexico's exports. Other leading exports are agricultural. Imports are largely of grains, capital, and intermediary goods.

Although internal savings are a source of gross investment, foreign financing has been crucial. The Mexican Government has received large credits from international lending agencies. A significant part of investment has been financed by borrowing in private capital markets.

Transportation and Communications

Mexico's land transportation network is one of the most extensive in Latin America. The 32,000 kilometers (20,000 mi.) of railroads are government owned. Railways and ports, however, have recently been bottlenecks to economic expansion. Tampico and Veracruz on the Gulf of Mexico are Mexico's two major ports, although the government is developing new ports on the gulf and the Pacific. A number of international airlines serve Mexico, with direct or connecting flights from most major cities in the United States, Canada, Europe, and Japan. Most Mexican regional capitals and resorts have direct air links with Mexico City or the United States.

Mexico has a well-developed telecommunications system, with about 109 television stations, 96 radio stations, 3 land satellite receiving stations, and 4.8 million telephones. Mexico is a member of the International Telecommunications Satellite Consortium (INTELSAT).

FOREIGN RELATIONS

The Government of Mexico in modern times has sought to maintain its interests abroad and project its influence largely through moral suasion and selective economic assistance. In particular, Mexico champions the principle of nonintervention and certain legal corollaries: the Estrada, Calvo, and Drago doctrines.

During the last 3 years, the Mexican Government has expressed increasing concern about intensified conflict in Central America. Mexicans believe that insurgency in Central America stems principally from economic and social injustices in that area. A Franco-Mexican declaration in El Salvador, issued in late August 1981, pressed for a political settlement that would recognize armed insurgents as "a legitimate political force." In February 1982, former President Lopez Portillo described what he saw as three interrelated problems in the region: the El Salvador insurrection, recurrent incidents between Nicaragua and its neighbors, and U.S.-Cuban relations. Since then, Mexican policy has emphasized defusing the situation on the Honduran-Nicaraguan frontier as a first step. Mexico and Venezuela together proposed Nicaraguan-Honduran bilateral talks. Since early 1983, Mexico, Venezuela, Colombia, and Panama have expanded their collaboration in an effort to bring the states of the region together and restore peace.

Mexico and Venezuela have also been collaborating to promote economic progress in the region for the last 3 years. The two countries together have sold oil on concessional terms to the developing countries of Central America and the Caribbean, under the 1980 San Jose agreement.

Recently, Mexico has shown a marked preference for resolving regional disputes through the United Nations, rather than through the Organization of American States (OAS). Mexican leaders have also stated, however, that the OAS should be retained as a forum for the Latin countries to discuss issues in a general way with the United States.

Mexico has been selective in its membership in other international organizations. To date, it has declined to become a member of the General Agreement on Tariffs and Trade, the Organization of Petroleum Exporting Countries, or the Nonaligned Movement.

U.S.-MEXICAN RELATIONS

Mexico and the United States have maintained close and friendly relations since 1938, when a major confrontation over the expropriation of oil holdings was resolved. These friendly relations were reinforced by the U.S. measures in 1982 to help Mexico deal with its economic problems. Purchases for the U.S. Strategic Petroleum Reserve, with

Travel Notes

Customs: A tourist card is required for entry.

Climate and clothing: The high plateau area around Guadalajara and Mexico City is springlike throughout the year, a bit cooler in winter, and a little warmer in summer. The Yucatan Peninsula, the Monterrey area, and the US border areas are very hot in summer and pleasant in winter. Business suits for men and street dresses or pantsuits for women are appropriate in the cities. Sport shirts are worn for all social occasions in the coastal zones.

Health: Cooked food is safe to eat; raw vegetables often are not. Tapwater may not be potable. Medical facilities in the larger cities are good. A leisurely pace is recommended for the first few days in the higher altitudes.

Telecommunications: Long-distance telephone and telegraph service to major cities is good. Mexico City is one time zone behind eastern standard time.

Transportation: Direct international air service from many US airports is available to Mexico City, Merida, Guadalajara, Monterrey, and other points. Bus service in Mexico is good, and the highway system is extensive. Auto rental is available.

Tourism: About 4 million tourists, about 90% of them US citizens, visit Mexico annually. Among the richest archeological sites are Teotihuacan (with its famous pyramids) and Tula near Mexico City, Monte Alban and Palenque in the south, and Chichen Itza and Uxmal in the Yucatan. The National Museum of Anthropology in Mexico City is one of the world's finest. Other important museums include the Colonial Museum in Tepozotlan, Chapultepec Castle, and the Museum of La Venta at Villahermosa, Tabasco. The major coastal resorts are Acapulco, Puerto Vallarta, Ixtapa, Cozumel, and Cancun.

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a large advance payment, emphasized the cooperative nature of the U.S.-Mexican energy relationship.

Much of the progress in U.S.-Mexican relations over the past several years has resulted from the close working relationships and frequent meetings between U.S. Presidents and their Mexican counterparts, as well as from high-level day-to-day contacts by the U.S. Ambassador. The most recent presidential meeting was between President Reagan and then-President-elect Miguel de la Madrid in San Diego/Tijuana in October 1982.

Beyond financial cooperation, the United States and Mexico are cooperating in efforts to solve various other problems, the most important of which are the illegal migration of Mexican workers into the United States, border environmental issues, narcotics and dangerous drug traffic into the United States, and trade issues.

The United States includes the following in its foreign policy objectives toward Mexico: to maintain friendly relations, to assure maximum cooperation between Mexico and the United States, and to settle all differences in the spirit of mutual respect and neighborly understanding. A strong and prosperous Mexico is in the U.S. interest.

Principal U.S. Officials

Ambassador—John Gavin
Deputy Chief of Mission—George B. High
Counselor for Political Affairs—A. Perry Shankle
Counselor for Economic Affairs—Alton Jenkens

International Boundary and Water Commission

Since 1944, the U.S. and Mexican Governments, working through the International Boundary and Water Commission (IWBC), have undertaken numerous joint programs for the settlement of their problems. In 1973, the two countries signed an agreement resolving the longstanding problem concerning salinity of the Colorado River, and the U.S. Congress passed the implementing legislation in 1974. The IWBC is engaged in programs for water conservation, division and accounting of shared boundary waters, flood control, settlement of boundary disputes and uncertainties, and stabilization of the river boundaries, all in accordance with various treaties and agreements. Some water quality and sanitation problems along the boundary are unresolved.

Counselor for Labor Affairs—A. Irwin Rubenstein
Counselor for Public Affairs (USIS)—Robert L. Chatten
Counselor for Consular Affairs and Consul General—Larry E. Lane
Counselor for Scientific and Technological Affairs—Clifton G. Metzner, Jr.
Counselor for Administrative Affairs—Donald R. Woodward
Counselor for Commercial Affairs—Calvin C. Berlin
Executive Assistant to the Ambassador—Donald Lyman
Legal Adviser to the Ambassador—Drew Arena

Consuls General and Consuls

Consulate General, Ciudad Juarez—William Tilney
Consulate General, Guadalajara—Julio J. Arias
Consulate, Hermosillo—Anthony Arredondo
Consulate, Matamoros—George Kettenhoffen
Consulate, Mazatlan—Elayne J. Urban
Consulate, Merida—Virginia Carson
Consulate General, Monterrey—Frank Tucker, Jr.
Consulate, Nuevo Laredo—Victor Abeyta
Consulate General, Tijuana—Robert Ezelle

Consular Agents

Acapulco—Lambert J. Urbanek
Cancun—Deborah D. Urioste
Durango—Kenneth F. Darg
Mulege—Donald Johnson
Oaxaca—Roberta French
San Luis Potosi—Margaret M. Snydelaar
Tampico—Vacant
Veracruz—Edwin Culp

The U.S. Embassy in Mexico is located at Paseo de la Reforma 305, Mexico 06500, D.F. (tel. 905-553-3333). ■

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FET

Exchange Rate as of December 31, 1985
Controlled: U.S. $ = 372.20 Mexican Pesos
Banks ("Superfree"): U.S.$ = 450.00
Private Exchange Houses: U.S.$ = 466.00

KEY ECONOMIC INDICATORS: MEXICO

	1983	1984	%Change	Est. 1985	% Change
National Accounts (Billions of Pesos)					
GDP at Current Prices	17,141.7	29,438.9	71.7	48,000	63.0
GDP at Constant (1970) Prices	856.2	885.9	3.5	925	4.5
N/A					
Per Capita GDP,Current Pesos[1/]	228,615.4	383,359.4	67.7	611,278	59.4
Fixed Capital Formation (1970 Prices)	137.2	144.7	5.4	N/A	N/A
Industrial Production (1970=100)				August 1985	
General Industrial Index	199.7	209.2	4.8	223.3	4.8
Mining (12.0) [2/]	299.9	304.5	1.5	319.9	9.9
Manufacturing (23.9) [2/]	190.0	200.2	5.4	213.7	4.4
Construction (4.9) [2/]	175.4	182.1	3.8	192.1	1.6
Electric (1.0) [2/]	291.9	309.2	5.9	353.1	8.3
Petroleum [3/]	401.9	413.4	2.9	432.5	3.2
Money, Prices, Population				October 1985	
Money Supply (M-1; Billions of Pesos at End of Period)	1,402.3	2,286.9	63.1	2,700.7	56.3
Consumer Price Index, End of Period (Average 1978=100)	766.1	1,219.4	59.2	1,787.0	58.0
Producer Price Index, End of Period (Average 1980=100)	480.0	768.7	60.1	1121.5	56.0
Population (thousands, mid-year)	74,980.5	76,791.8	2.4	78,524.2	2.3
Balance of Payments (U.S. $ Millions)				September 1985	
Current Account Receipts	28,944.5	32,727.7	13.1	22,381.2	-9.4
" Exports [4/]	22,312.0	24,053.6	7.8	16,075.2	-11.9
U.S. Share (percent)	58.1	58.0	-	61.3	-
Petroleum Exports	16,017.2	16,601.3	3.6	11,033.2	-12.0
Current Acct.Expenditures	23,620.7	28,760.4	21.8	22,433.6	6.4
Imports	8,550.9	11,254.3	31.6	9,995.6	24.4
U.S. Share (percent)	63.4	65.2	-	66.8	
Balance on Current Account	5,323.8	3,967.4	-25.5	-52.3	N/A
Balance on Capital Account	-1,105.8	-1,576.0	-42.5	-2983.1	-71.8
Errors and Omissions	-917.1	-150.7	83.6	32.0	-85.4
International Reserves	4,922.5	8,108.1	64.7	5,789.2	-27.2
Average Annual Exchange Rate (Mex.$/U.S.$1)					
"Controlled"	120.17	167.77	-	256.98	-
"Market" (Private Exchange Houses)	150.29	185.19	-	311.49	-

1/ In pesos, not billions of pesos.
2/ Figures in parentheses refer to sectors' shares of GDP in 1984.
3/ A subsector of the mining sector; includes the extraction of crude petroleum and natural gas and basic petrochemicals.
4/ Figures do not include in-bond assembly industry trade.

SOURCE: Bank of Mexico Reports; Embassy Estimates; National Population Council of Mexico; Sistema de Cuentas Nacionales de Mexico.

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II SUMMARY

In spite of relatively high economic growth, 1985 was a difficult year for the Mexican economy. Inflation was almost 64 percent and the budget deficit equaled 9.5-10 percent of GDP. Both greatly exceeded original targets and were higher than their 1984 levels. The government's demand for credit rose sharply causing a marked increase in domestic interest rates and lower credit flows to the private sector from the domestic banking system. Minimum wages fell in real terms for the fourth consecutive year. The costs of the September earthquakes for cleanup and reconstruction are estimated at 3-4 billion dollars. Mexico's industrial capacity was little affected except in the apparel sector.

Real growth in the Mexican economy at 4-5 percent followed a level of 3.7 percent in 1984 and negative growth in 1982 and 1983 of 0.5 percent and 5.3 percent respectively. This growth was spread over most sectors of the economy including manufacturing, agriculture and commerce.

During 1985, Mexico's oil industry was affected by the worldwide oversupply of petroleum. Prices dropped and export volumes fell for a combined impact of about $2 billion less in petroleum export revenues compared to 1984. Non-oil exports also fell, with a resulting drop in Mexico's positive trade balance of 34 percent compared to 1984. In 1985 the Mexican government announced it would enter the GATT and made a number of moves to liberalize trade. Over the course of 1985 the cost of a dollar in free market pesos increased by 123 percent, or nearly double the rate of inflation. Through September foreign exchange reserves had fallen by $2.3 billion dollars.

For 1986 the Mexican Government has identified additional economic reordering and structural change as its priority macroeconomic objectives. If successful, these objectives will result in lower inflation, a real reduction in the public sector deficit, and structural changes in the industrial sector. The inflation target for 1986 is 45-50 percent and the GDP growth target is -1 to +1 percent. Net public sector external borrowing requirements are estimated at $6 billion. The financial deficit of the public sector is projected to be 8-9 percent of GDP.

The international petroleum market and international interest rates will continue to have considerable influence on Mexico's economic performance in 1986. Mexico's external interest payments may fall slightly in 1986 but this could be more than offset by falling petroleum prices.

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III RECENT ECONOMIC DEVELOPMENTS: THE MEXICAN ECONOMY IN 1985:

The High Public Sector Deficit, High Inflation, and the Earthquakes Made 1985 a Difficult Year for Mexico. Although real economic growth in 1985 was probably 4-5 percent, the public sector deficit was far higher than anticipated. Combined with higher than anticipated inflation, it slowed Mexico's economic adjustment program. Both inflation and the public sector deficit as a percent of GDP were not only higher than targeted but also higher than their levels in 1984. Thus, 1985 was the first year since 1982 that these key indicators failed to improve.

When President de la Madrid took office in December 1982, the Mexican economy was plagued by rising inflation, capital flight, and falling output and employment. Foreign exchange reserves were not sufficient to meet even the country's short term external liabilities. The new President's inauguration followed by only four months the events of August 1982 when the Mexican economic crisis came to a head. At that time the country was forced to seek emergency assistance to avoid running out of foreign exchange and to begin planning in earnest an economic adjustment program to bring about major structural changes in the economy. Since the late 1970's, the Mexican Government had followed a policy of promoting development through sharply increased public sector expenditures and external borrowing. These policies led to burgeoning public sector deficits, accelerating inflation and an increase in the public sector's external debt from $4 billion (12 percent of GDP) in 1970 to $59 billion (36 percent of GDP) in 1982.

President de la Madrid began his six-year term of office with a strategy for a reordering of the economy. This six-year strategy envisioned major structural changes in the economy during the first two years of his administration to be followed by growth at 3.5-6 percent per year in the remaining four years. The key to implementing this plan was a three-year Extended Fund Facility Program with the International Monetary Fund. The major objectives of this program were massive annual reductions in the real size of the public sector deficit, sharp annual declines in the rate of inflation, substantial cutbacks on external borrowing and a progressive build-up of foreign exchange reserves. The results of his first two years in office included declining inflation, a gradual recovery of economic activity, strengthening of public finances, improvement in the country's external accounts, a restructuring of the country's external debt, and steady increases in the country's foreign exchange reserves. However, during 1985 these trends became much less favorable.

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Mexico's most serious economic problems in 1985 were the growth of the public sector deficit, accelerating inflation, rising interest rates, and a deterioration in the balance of payments. The budget deficit as a ratio to GDP probably will end up at 9.5-10 percent as against the original target of 5 percent. This compares with revised figures of 9.1 percent in 1984, 9.4 percent in 1983 and 17.4 percent in 1982. Over the course of 1985 federal and parastate spending increased without a commensurate rise in revenues. Virtually no price increases in price-controlled items were put into effect between January and November 1985. Heavy government borrowing caused a sharp increase in domestic interest rates in 1985; they were about 13 percentage points higher than original budget projections. These higher domestic interest rates were the single most important cause for the widening of the deficit, causing it to rise by the equivalent of 3 percent of GDP, and have resulted in a large increase in the government's internal debt. According to preliminary estimates, programmed expenditures, i.e., current and investment outlays, were only about 0.7 percent of GDP higher than budgeted. Lower PEMEX revenues also were about 0.7 percent of GDP less than original projections.

The growth in domestic demand led by the public sector also had important implications for inflation, which after abating during the first half of the year began to accelerate during the last six months. Inflation as measured by the consumer price index was extremely high in January 1985 (7.4 percent on a month-to-month basis) as the government instituted a number of price increases on gasoline and basic food items, and elevated minimum wages by 30 percent. The rate steadily dropped through June (2.5 percent) but then began to increase. By December it had reached 6.8 percent and consumer price inflation for the year totaled 63.7 percent. Producer prices rose by 61.1 percent during 1985. These indices were both slightly higher than the previous year and inflation will remain a serious problem in 1986.

Rising public expenditures combined with a marked recuperation in private sector activity also have contributed importantly to the deterioration in the balance of payments and difficulties in managing the exchange rate. The high level of internal demand has shifted resources away from the export sector causing a decrease in non-oil exports and a rapid rise in imports. The country's economic setbacks also produced intermittent heavy speculation against the peso and both the free and controlled exchange rates fell at a considerably faster rate than domestic inflation.

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The September earthquakes did not have a large impact on the fiscal deficit in 1985 and since reconstruction costs will be distributed over several years they should be manageable. There have been several estimates of the financial costs of these natural disasters for Mexico, most of which are in the $3-$4 billion range. Of this, the costs of the earthquake damage in telecommunications and the water supply system for Mexico City will probably total $1 billion over the next several years. At least 400 buildings were completely destroyed and about 800 buildings sustained serious damage. Nonetheless, Mexico's industrial capacity was little affected except in the apparel sector. The government anticipates that about 20 percent of the financing requirements can be met by foreign loans, mostly on concessionary terms.

In an effort to ease the strain on the public sector deficit the Mexican government has embarked on a program to remove from the federal government those parastatal entities that are not considered essential to the state and/or are financial drains. The Secretariat of Energy, Mines, and Parastate Industry reported in November 1985 that since 1982 it had reduced by 129 the number of companies under its control. Those 129 entities were either sold, dissolved, or transferred to state governments. The government has sold off a large hotel chain and several industrial operations but a great number of parastatal companies listed for sale in early 1985 are still on the block.

Initial Estimates for GDP Growth are 3.9 percent although the final figure could be higher. The most recent estimates from the Government indicate that real GDP growth was 3.9 percent in 1985, somewhat higher than the 3.7 percent figure registered in 1984. This figure may be adjusted upward once the final data for the year become available. In 1985 economic expansion during the first half of the year was higher than in the second half, as the government tried to institute stricter fiscal and credit policies with particularly tight restrictions on lending by commercial banks to the private sector. During the January - October period the major sectors of the economy all showed positive growth in 1985 over 1984. According to Bank of Mexico statistics, industrial activity in October 1985 was 5.8 percent above the level in October 1984. Increases in other areas were as follows: manufacturing, 6.8 percent; construction, 5.1 percent; petroleum, -1.3 percent; and minerals, 9.9 percent. Sales of durable consumer goods rose by 6.7 percent while sales of non-durables grew by 3.4 percent.

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Money Supply Growth Was Sporadic but Ended the Year Below Inflation: In 1985, the M-1 measurement of the money supply grew by 54.5 percent compared to 63 percent in 1984. The table below shows that monthly growth rates in the money supply were sporadic but that the overall trend for the year was generally favorable.

M-1 GROWTH VS. INFLATION

	M-1 Growth Over The Same Month In Previous Year	CPI Increase Over the Previous 12 Months
Year-End 1983	41.4	80.8
Year-End 1984	63.1	59.2
January 1985	62.0	60.8
February	63.7	59.0
March	59.5	58.4
April	52.7	56.5
May	53.7	55.1
June	56.8	53.4
July	56.8	53.7
August	57.5	56.0
September	64.3	57.6
October	57.1	58.1
November	55.1	59.8
December	54.5	63.7

The authorities tried to control the growth of the money supply by announcing tighter fiscal policies, imposing restrictions on lending by commercial banks to the private sector, as well as through restrictions on new peso accounts and on expansion of existing accounts by financial institutions outside of Mexico. Since July, credit flows from the commercial banks have been cut by de facto legal reserve requirements of about 90 percent on new deposits. Also later in the year, the banks agreed not to increase their loan portfolios through the end of the year above levels existing at the end of October 1985. Furthermore, on November 5 the Bank of Mexico announced new regulations intended to diminish peso loans from sources outside of the domestic banking system. (The authorities stated that an active offshore peso loan market had developed and this was impeding their ability to regulate the money supply.)

According to preliminary data, resource capture, i.e., deposits in the banking system and purchases of treasury bills (CETES), totaled 3.7 trillion pesos in 1985, a real decrease of 12 percent compared to the previous year. Deposits in the banking system were even more depressed, down by about 34 percent. On the other hand, purchases of treasury bills (CETES) rose by

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more than 135 percent in real terms, largely because interest rates on these bills were kept considerably higher than interest rates on time deposits. During 1985, the government absorbed much of the resources available in the financial system through high marginal reserve requirements at the banks and through new issues of government securities. Consequently, credit flows to the private sector fell by about 14 percent in real terms last year.

Interest rates progressively increased throughout 1985. Rates on short term time deposits (30-90 days) rose from 46 percent in January to 66 percent in December. Interest rates on 90 day treasury bills rose from 49 percent to 76 percent between January and August. In an effort to reverse this trend and to lessen the cost of servicing its debt in October, the Mexican government began setting interest rates on Treasury bills. The former practice had been to auction the Treasury bills, thus letting the market influence the yield. Once the government tried to force interest rates lower many buyers withdrew from the market leaving large volumes of securities unsold to the private sector. In an effort to reverse this trend, the government raised Treasury bill rates back over 70 percent in December but as yet it has not gone back to the former auction system.

The Mexican Government has been progressively consolidating the commercial banking system since its nationalization in September 1982. At that time there were 60 institutions. On January 1, 1986 there will be only 20 banks and a further drop to 19 is projected for the first quarter of the year. That will complete the unification process with six "national" banks (operating nationwide), eight multiregional banks, and five regional banks.

Minimum Wage Increases Lagged Behind Inflation. The Mexican Government increased the minimum wage by 30 percent on January 1, 1985, by another 18 percent in June, and by 32 percent effective January 1, 1986. The cumulative total for 1985 comes to 53.4 percent when the June 1985 increase is coupled with that of January 1985 or to 55.8 percent when coupled with the increase of January 1986. Since the inflation rate for 1985 was somewhat higher (63.7 percent), in either case there was a real reduction in minimum wages in 1985. This was the fourth straight year that these wages have declined in real terms for a cumulative total of about 40 percent. At present the minimum wage in Mexico City is 1,650 pesos per day (or $3.65 at the current free market exchange rate). Adjustments to the minimum wage, while not binding for other types of salary income in Mexico, tend to set a precedent for other wage negotiations.

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The Exchange Rate System Was Modified and Exchange Rates Fell by More Than Inflation. Mexico established a dual exchange rate system in late 1982. The controlled rate applies to external debt payments and most foreign trade transactions (about 80 percent of all foreign exchange transactions). A government-regulated market rate in the banks and a free market rate in exchange houses were used for all other transactions (mainly tourism and border trade) until July 1985. At that time, the Mexican Government devalued the controlled rate by 20 percent and replaced the market rate with a "superfree" rate set by the board of governors of the Bank of Mexico and administered by the nationalized commercial banks. The superfree rate is intended to reflect market conditions whereas the former "market" rate devalued against the dollar by a fixed amount each day.

On August 5, 1985 the government dropped the fixed daily slide of the controlled rate and substituted a "regulated flotation system" under which the rate is adjusted each day based on market considerations. During December the controlled rate peso fell by an average of almost one peso per day under this new procedure. Over the course of 1985 the free market exchange rate fell from 209 to 466 pesos per dollar, while the controlled rate declined from 192 to 372 pesos per dollar. The difference between the two rates was 25 percent at the end of the year and the government was making an effort to bring them closer together.

In November, the central bank instituted new exchange control regulations that curtailed activity in the peso-dollar parallel market. These new measures resulted in the closing down of the New York spot and Chicago futures markets in Mexican pesos and limited the foreign exchange market operations of major international banks. The peso strengthened significantly through the end of the year (10 percent) after these measures went into effect although many analysts believe the Mexican Government also was supplying dollars in the foreign exchange markets during this period. At year end 1984 and 1985, Mexican exchange rates were as follows:

	1984	1985	Percent Change
Controlled	192.46	372.20	93
Banks ("Superfree")	N/A	450.00	
Private Exchange Houses	209.22	466.00	123

Mexico's Trade and Current Account Balances Declined Significantly in 1985. Mexico's trade balance remained positive in 1985 but declined by 34 percent compared to 1984. Petroleum product sales were down 11.0

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percent, due in large part to the weak oil market prevailing through most of 1985, but they still accounted for 68 percent of total merchandise exports. Non-oil exports also decreased by 5 percent. Meanwhile, imports increased by 19.4 percent. The rise in imports was due exclusively to increased demand from the private sector and reflects high economic growth in the first part of the year and more liberal import policies as the government substantially reduced the list of products requiring import licenses. The Ministry of Commerce has stated that, on a value basis, less than 40 percent of imports now require import licenses. Private sector imports rose by 40.9 percent while public sector imports fell by 9.5 percent.

Mexican Exports and Imports
1984-1985
(Millions of U.S. Dollars)

	1984	1985	Percent Change
Exports	24,054	21,835	-9.2
-- Petroleum	16,601	14,767	-11.0
-- Non-petroleum	7,452	7,068	- 5.2
Imports	11,254	13,439	19.4
-- Consumer products	848	1,078	27.1
-- Intermediate goods	7,833	9,162	17.0
-- Capital goods	2,573	3,199	24.3
Trade Balance	12,799	8,396	-34.4
Memo Item:			
-- Private Sector Imports	6,465	9,106	40.9
-- Public Sector Imports	4,790	4,333	-9.5

In spite of a marked decline in interest payments abroad (from $9 billion to $7.6 billion during the first nine months of the year in 1984 and 1985 respectively), the current account turned slightly negative (-$52.3 million) at the end of the third quarter of 1985, compared to a surplus of $3.6 billion for the same period in 1984. A somewhat larger deficit is expected for the year as a whole.

In the services accounts, in-bond industries (maquiladoras) continued to be a bright spot in the Mexican economy and now has become its second-largest earner of foreign exchange. Growth in the in-bond sector again greatly exceeded overall economic growth in Mexico. During the first three quarters of 1985, in-bond industries generated almost $1 billion, 24 percent more

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than for the same period in 1984, and employment in this sector had increased by 8 percent. Over the same period, receipts from tourists visiting Mexico were down 6.5 percent while spending by Mexicans abroad rose by 14 percent. Consequently, net tourism income declined by about 15 percent. The September earthquakes in Mexico City also contributed to a further decline in tourism during the last quarter of the year.

Frontier transactions with the United States during the first nine months of the year were in deficit by $312.7 million, compared to only $87.5 million in 1984. Frontier receipts were down by more than 7 percent while expenditures increased more than 14 percent. However, Mexican expenditures in the U.S. declined significantly toward the end of 1985 as the peso weakened dramatically.

Mexico's Balance of Payments
($ Millions)

	Jan-Sep 1984	Jan-Sep 1985	Percent Change
Current Account Balance	3637.9	-52.3	N/A
- Merchandise Trade Balance	10,217.9	6,079.6	-40.5
- Tourism	1,044.8	885.2	-15.3
- In-Bond Industries	847.0	976.9	15.3
- Frontier Transactions	-87.6	-292.0	-233.3
- Interest Payments	-8,992.7	-7,647.1	15.0
- Other	608.5	-54.9	N/A
Capital Account Balance	-1,684.2	-2,893.1	- 71.8
- Direct Investment	313.5	377.7	20.5
- Other Long Term	1,789.6	-940.1	N/A
- Short Term	-3,787.3	-2,330.7	38.5
Errors and Omissions	279.3	32.0	-85.9
Borrowing from Int'l Organizations	854.7	496.8	-41.9
Other	-56.0	71.8	N/A
Change in Reserves	3,031.8	-2,344.7	N/A

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Mexico's Decision to Enter GATT and a Bilateral Export Subsidies Agreement with the United States Highlighted Several Trade Liberalization Moves. In late 1985, the Mexican Government formally announced that it would seek entry to the GATT. Mexico's primary objectives were to open its economy, increase the competitiveness of its industries, assure most favored nation (MFN) treatment and obtain access to dispute settlement mechanisms. The United States and Mexico also signed a bilateral export subsidies agreement under which the Mexican Government agreed to phase out export subsidies in exchange for access to the injury test in the United States when countervailing duty cases are brought against Mexican exporters.

During the year Mexico also reduced the number of tariff line items requiring prior import permits. Additionally, the government introduced the DIMEX scheme whereby exporters can automatically import a wide range of goods up to 30 percent of the value of their foreign exchange earnings. It also instituted a number of other measures to simplify financial and paperwork procedures for importing and exporting.

Petroleum Production and Exports Declined from 1984 Levels. During 1985, Mexico's oil industry was affected by the worldwide oversupply of petroleum. Mexico lowered its prices both on Maya (heavy) and Isthmus (light) crude oils several times throughout the year with the average price/barrel of $26.64 in January declining to $23.92 by year-end. The volume of exports fell from an average of 1.5 million barrels/day to below 800,000 barrels/day in June but higher exports after August may bring the annual average level back close to a 1.45 million barrel/day mark for 1985 as a whole. The combined impact of falling prices and lower volumes will be about $1.8-$2 billion less in petroleum export revenues compared to 1984. However, as a result of increased internal demand, total petroleum production was down by only 2 percent through November. Furthermore, Mexico was able to maintain its position as the fourth largest oil producer in the world following the U.S.S.R, Saudi Arabia, and the United States.

One area of improvement was Mexico's production of refined petroleum products. On a value basis, petroleum product exports were up by about 12 percent for the January-November 1985. On the other hand, petrochemical exports were down by about 56 percent.

Mexico's crude oil exports go to some 21 countries. During the first ten months of 1985 the United States purchased about 53

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percent of the total followed by Japan (10 percent), Spain (4 percent), the United Kingdom (5 percent), and France (6 percent). Exports were composed of 42 percent light grade Isthmus and 58 percent heavy-grade Maya crude. Mexico's proven hydrocarbon reserves decreased slightly in 1984 from 72.5 to 71.75 billion. No announcements have been made regarding reserve changes in 1985.

Petroleum Production

	Crude Production	Crude Exports	Total Hydrocarbon Exports	Percent of Total Exports
	(Thousands of barrels/day)		(U.S.$ Millions)	
1977	981	202	1,018.7	21.9
1978	1,209	365	1,837.2	30.3
1979	1,461	533	3,986.5	44.7
1980	1,936	828	10,401.9	68.0
1981	2,312	1,098	14,574.0	75.0
1982	2,746	1,492	16,594.5	79.0
1983	2,665	1,537	16,164.9	74.9
1984	2,685	1,525	16,601.3	69.0
1985(Jan-Nov)	2,626	1,432	13,439.2	68.0
Year end			14,767.0	

The domestic prices of Mexico's gasoline products have risen sharply since December 1982 as an integral part of the country's economic adjustment program. This program requires a movement toward world prices in the Mexican market. In dollar terms, unleaded gasoline increased from $1.02 in October, 1983, to $1.15 in April, 1984 and to $1.26 in January, 1985 (using the Mexican Government's "market" exchange rate on the date of each increase). Price increases which became effective December 6, 1985, were substantial in peso terms but less in dollars because of a higher exchange rate. At the end of December 1985, unleaded and leaded gasolines cost the equivalent of 70 and 87 cents per gallon respectively.

Agricultural Production Continued to Improve: During 1985, Mexico's agricultural performance continued its recovery from the drought-depressed levels of 1982. Basic grain and oilseed harvests probably increased about two percent in 1985 compared to 1984. Excellent summer rainfall in 1985 and high reservoir levels led to the higher overall crop production. Larger wheat, rice, and soybean harvests accounted for most of the increase in total output.

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Meat production was mixed in 1985. Beef production rose slightly due to higher prices to the producer and favorable rainfall. Poultry output also increased in 1985 due to higher prices, especially early in the year, whereas pork production continued to decrease because of unprofitable prices to producers. Increases in producer support prices for basic agricultural products were generally about equal to the overall official inflation rate.

Mexico's total agricultural imports decreased about 20 percent in volume in 1985 compared to the previous year. The United States remains the dominant supplier of agricultural commodities to Mexico with sorghum, corn, soybeans and sunflower seeds as principal products. Based on U.S. trade data, the United States exported $1.24 billion of agricultural products to Mexico in January-October 1985, compared to $1.70 billion during the same period in 1984. Mexico's $1.14 billion in agricultural exports to the U.S. (its main market) in January-October 1985 were slightly higher than its exports of these products during the same period in 1984. Coffee, fresh vegetables, and fruits are Mexico's primary agricultural exports to the United States.

The quantity of Mexico's 1986 total crop production will depend primarily on the strength of summer rains; rainfall during the last two years has been well above average. High reservoir water levels are expected to result in another good harvest in April-June. Cattle production is expected to continue to recover in 1986, due to good rains in 1984 and 1985 and higher producer prices. Pork and poultry output will probably fall in 1986, however, due to unprofitable prices to producers and depressed consumer income.

IV. OUTLOOK FOR 1986 AND IMPLICATIONS FOR THE UNITED STATES

The Fundamental Objective of Mexico's Economic Policy in 1986 is Additional Economic Reordering and Structural Change. In November as a part of its budget process the Mexican Government set forth its economic strategy for 1986. It stressed that the economic reordering process, which will be accelerated in 1986, should be interpreted not as an immediate program to overcome an emergency situation, but as a more permanent effort to strengthen the country's financial situation and stabilize prices.

The three fundamental objectives of economic policy in 1986 are:

(1) to pursue with renewed vigor the strengthening of public finances and a reduction in inflation, thereby improving the possibilities for sustained economic growth and improved social well-being.

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(2) to follow through with reconstruction programs with widespread participation of the Mexican society in design and implementation.

(3) to accelerate the process of structural change, raising the productivity of the public sector, emphasizing social priorities, modernizing the industrial plant and stimulating decentralization.

In a major policy speech read on February 21, President de la Madrid reaffirmed the country's commitment to these policy goals. He noted, however, that certain changes in strategy need to be undertaken in light of the recent drop in world oil prices. Falling oil prices mean a decrease in Mexico's public sector revenues and in its reserves. In response to tightened constraints, the GOM will cut federal spending even more than originally planned and seek to sell off more parastatal enterprises. Also, public sector prices will be adjusted to more closely approximate world market prices. On the commercial and trade policy front, Mexico plans to promote exports more strongly, continue negotiating GATT accession and make additional efforts to attract foreign investment.

The following tables show the revised macroeconomic and budget parameters for 1986:

The Mexican Government's Economic Projections for 1986

	Percent Change
Real Gross Domestic Product	-1 to +1
Inflation (consumer prices) Dec-Dec	45 to 50
Public Sector Finances	Ratio to GDP
- Deficit with Monetary Impact	6.0
- Surplus Excluding Interest	8.3
	Millions of Dollars
External Sector	
- Trade Surplus	4,700
- Current Account Surplus	0-500
- Non-petroleum Exports	7,500-8,000
- Total Imports	12,700
- Crude Petroleum Exports (bbls/day)	1,300,000
	Percent
Financial Variables (Dec-Dec)	
- Money Supply	45
- Average Cost of Funds to Banking System (CPP)	61
- Increase in External Public Debt (Millions of $)	6,000

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During 1986, the tax laws will continue to provide accelerated depreciation provisions in an effort to help promote investment. This year investors will be able to write off 25 percent of the value of their new investments. Other key elements of the government's strategy for 1986 are the continued use of treasury bills (CETES) to finance deficit spending, and the maintenance of a dual exchange rate system to help control foreign exchange flows.

The Budget is Projected to be Austere as Mexico Tries to Cut Its Financial Deficit. To help achieve the above objectives for 1986, the Government of Mexico in December 1985 announced a budget that included sizeable cuts in the public sector deficit , special programs for reconstruction, reductions in the size of the public sector and tax charges. Because of the drop in world oil prices, the GOM in February set aside the December budget. A new budget had not been released by the date of print. The new budget is, though, expected to incorporate the same principles as the 1985 version of Mexico's national spending plan.

The December 1985 budget outlined cuts in the public sector financial deficit from 4.5 trillion pesos in 1985 to 3.7 trillion pesos in 1986. As a ratio to GDP, the deficit would fall from 9.6 percent to 4.9 percent. Most of the adjustment would be from a reduction in programmed expenditures, i.e., current and capital outlays, which would grow by only 43 percent in nominal terms and fall by 2.5 percentage points as a ratio to GDP. Such an adjustment would require a budget surplus before interest payments of 8.2 percent of GDP and would permit a reduction in the real value of public sector internal debt of 13 percent. Even with this reduction, however, debt service payments will rise by 71 percent in 1986. Debt servicing outlays will total 14.8 trillion pesos, about 46 percent of overall budgetary outlays. Of this, 9.4 trillion pesos will consist of interest payments and 5.4 trillion pesos of amortization payments. (These figures include both internal and external debt payments.)

The budget will include a special reconstruction account of 300 billion pesos for health, education, housing and basic infrastructure to help recover from the effects of the September earthquakes. In addition, there will be a special 200 billion peso housing credit program for families in those zones affected by the earthquakes.

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An important part of the budget strategy is to advance the process of reducing the size of the public sector while maintaining its participation in strategic areas and priority development sectors. Simplification and decentralization of the public sector are also priority objectives. According to the government's plan, expenditures in areas of social well-being such as education, health and rural development will either increase or be maintained in real terms in 1986 and structural changes in the parastatal sector will be accelerated. The latter will entail continued sales of selected parastatals while raising productivity in retained sectors such as steel, sugar, and fertilizers. Of the overall real cut in programmed expenditures, 70 percent will come from current outlays and only 30 percent from investment outlays. Although budgeted investment will decline in real terms, the government believes it will be adequate, particularly in priority sectors such as petroleum and electricity.

Budgetary Comparisons
(Billions of Pesos)

				Percent Change in 1986	
	1985 Budget	1985 Current Estimate	1986 Budget	1985 Budget	1985 Current Estimate
Total Expenditures	18,400	20,943	32,359	76	55
Program Expenditures	11,539	12,310	17,567	55	43
-- Federal -- Government	5,783	6,006	8,236	42	37
-- Parastate -- Companies	5,756	6,304	9,331	62	48
Debt Servicing	6,861	8,633	14,792	116	71

The budget revenue plan calls for a special tax on medium and high income groups and for increasing the taxes on non-essential goods and services as well as cuts in subsidies and transfers to parastate industries. Tax rates are to be

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increased on telephone services, new cars, petroleum, and water. The authorities also intend to strengthen efforts to combat tax evasion. A special earthquake tax will apply to a number of non-essential goods and services such as alcohol, beer, tobacco, telephone services and gas.

Mexico's Leaders Reaffirm Commitment to Debt Negotiation and Outline the Country's External Financing Needs for 1986. In his economic policy address of February 21, President de la Madrid reaffirmed Mexico's commitment to reach a solution to the debt problem "through negotiation and dialogue." However, he stressed that the sharp drop in oil prices has created financial difficulties for Mexico that also require cooperation from external debtors.

Mexico plans to stick to the budgetary austerity originally planned for 1986, undertake further measures to cut the public deficit and continue negotiating for new money. Mexican financial officials have stated that net public sector external borrowing in 1986 will be $6 billion dollars. This estimate devolves from a strategy that continues to rely on external financing but controls its growth so as to progressively reduce foreign debt in real terms (i.e., as a share of GDP).

Mexico's foreign debt now amounts to nearly $100 billion. Senior government officials have recently made the following comments:

-- External debt is equal to somewhat more than half of the country's gross domestic product, three and one-half times the level of exports, but only about 5 percent of the value of proven petroleum reserves.

-- Therefore, it should be possible to meet the country's external debt obligations without sacrificing growth.

-- The net increase in external indebtedness between 1986 and 1990 will be $15-$20 billion.

-- By the end of the decade, external debt will be equal to only about one-third of GDP.

-- By 1990, interest payments will be equal to only one-third of goods and services exports.

Again, the ability of the government to follow through with this approach depends importantly on petroleum prices. If they continue to fall, this analysis would have to be modified.

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Profile of Mexico's Foreign Debt
(U.S. Billions $)

	1982	1983	1984	1985
a. Public Sector	60.0	69.5	73.2	73.5
by Creditor				
--Commercial Banks	46.4	54.1	56.9	57.4
--IBRD and IDB	5.0	4.4	4.9	5.1
--IMF	0.2	1.2	2.4	2.4
--Other	8.4	9.8	9.0	8.6
by Currency				
--U.S. Dollars	53.5	57.4	63.9	64.1
--Pounds Sterling	1.0	1.0	0.7	0.7
--Japanese Yen	0.8	0.8	1.4	1.7
--Swiss Franc	0.7	0.5	0.5	0.5
--Deutsche Mark	1.6	1.4	1.2	1.2
--Canadian Dollar	n/a	n/a	0.6	0.6
--IMF SDR	0.2	1.2	2.4	2.4
--Other	2.1	5.5	1.1	1.2
b. Mexican Banks	8.4	5.1	5.0	5.0
c. Private Sector	19.1	19.1	18.5	18.5
Total	87.6	93.8	96.7	97.0

The Foreign Investment Climate Remains Uncertain: Foreign investment is generally welcome in Mexico, except in certain areas reserved for Mexican nationals. It is, however, subject to close government scrutiny and regulation, particularly in cases of majority foreign ownership. Although foreign investment grew significantly between 1950 and 1981, it remains a small share of total investment in the economy. Over the past two years net foreign investment inflows have risen more slowly than during the late 1970's, and early 1980's in part because of the economic recession in the country which lasted from 1982 until mid 1984.

The rules governing foreign investment are contained in three laws enacted during the 1970's and their subsequent regulations: The 1973 Law to promote Mexican Investment and Regulate Foreign Investment; the 1973 Technology Transfer Law; and the 1976 Law on Inventions and Trademarks. At present, most foreign investors are limited to minority ownership with exceptions being granted in cases where authorities consider

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the investment to be particularly attractive for Mexico, e.g., important technology transfer, significant employment generation, large export potential, and/or industrial diversification. The current administration which will be in office until 1988 has stated it will not make any significant changes in the laws relating to foreign investment.

Between 1960 and 1981, direct foreign investment played a relatively small role in Mexico's total external financing requirements which were fulfilled principally by borrowing. Furthermore, although GOM authorizations for new foreign investment rose in 1983 and 1984, net annual direct investment flows have declined during each of those years, averaging only $425 million as compared to $996 million during the 1979-82 period. In 1985 it is estimated that net foreign investment inflows totaled about $500 million.

The de la Madrid Administration has publicly stated that it welcomes foreign investment although clearly it favors channeling such investment into certain areas of the economy. In February 1984, it issued new guidelines for foreign investment and specified that majority foreign ownership would be allowed in certain high priority sectors such as heavy machinery, electronic equipment, high-technology products, and hotels. Also, new technical regulations facilitating administrative requirements were promulgated later in the year. Nonetheless, potential investors will continue to be screened carefully. The government did approve a large project by I.B.M. in 1985 that when completed is projected to generate over $200 million in exports from Mexico. Other major projects approved by the government included automotive/truck operations by General Motors and Mercedes with local Mexican partners.

The U.S. Department of Commerce Expands Services to U.S. Firms Doing Business in Mexico: With the liberalization of Mexican import regulations which took place in July, 1985, demand for the commercial services offered to U.S. businessmen by the United States Department of Commerce has increased. The number of public and private trade opportunities sent to the Department of Commerce in Washington for distribution to subscribers of the Trade Opportunity Program (TOP) was up from 139 in fiscal 1984 to 226 in fiscal 1985.

The number of both U.S. and foreign firms counseled by the Commercial Section increased in 1985. This reflects the anticipated increase in Mexican imports due to changes in import licensing rules and paperwork requirements.

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U.S. exports to Mexico for the first nine months of 1985 increased by 4% over the equivalent period in 1984. If this increase was maintained through the balance of the year, it will be the second straight year of increased U.S. sales to Mexico. Leading U.S. non-agricultural exports to Mexico include: replacement parts for gasoline engines and electric motors; radio, telegraphic and telephonic equipment: styrene and articles of rubber and plastic; electronic components; and general merchandise not manufactured in Mexico. Emphasis on the following sectors is part of the national development plan: telecommunications, metal and metal-processing, environmental control, computer technology, industrial port development, food processing and packaging, and home construction.

In 1984 the U.S. Department of Commerce established a commercial office in the American Consulate in Guadalajara, an important industrial area especially with its increased activity in electronics. This office is staffed by one American and two Mexican commercial specialists. The U.S. Department of Commerce continued its expansion of services by placing an American Commercial Officer in the U.S. Consulate in Monterrey in 1985. The new Monterrey Commercial Office offers expanded commercial services for the entire northeast region of Mexico. Both the Guadalajara and Monterrey offices are prepared to offer complete commercial services and welcome the opportunity to serve U.S. business interests.

For U.S. firms or their Mexican subsidiaries, the United States Trade Center, located in the heart of Mexico's financial and business district, is planning a full schedule of exhibitions to promote U.S. products and technology. Mexican buyers have been attending U.S. Trade Center shows in record numbers. Exhibitions to be held at the Trade Center in 1986 include the following: Machine Tools, March 11-14; Computer and Peripheral Systems, April 15-18; Furniture Manufacturing Equipment, May 20-23; Telecommunications Equipment, June 24-27; Graphic Arts and Materials Equipment, July 15-18; Computers, Telecommunications, Electronics, August 5-8; Medical Equipment, September 9-11; Building Materials, Oct. 13-16; In-Bond Manufacturing, Dec. 2-4.

As part of a continuing effort to reach markets outside Mexico City, two trade shows will be held outside the Federal District in 1986; a spin-off of the Mexico City Computer Show in Guadalajara, April 21-24, and the "Hi-Tech USA" Show in Guadalajara, August 5-8.

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For information on any of the above promotions, please contact the Show Promotion Officer, U.S. Trade Center, American Embassy Mexico, Reforma 305, Room 246, 06500 Mexico, D.F., Mexico. Telephone: 905/211-00-42, ext. 3735. For information on commercial services to U.S. businessmen, contact the Commercial Attache, American Embassy Mexico, Reforma 305, Room 254, 06500 Mexico, D.F., Mexico. Telephone: 905/211-00-42, ext. 3730.

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II. CONFERENCE BACKGROUND PAPERS

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1. Economic Relations Between the United States and Mexico

US-Mexican Economic Relations

Mexico is our third largest trading partner, our largest foreign supplier of petroleum, one of the top three recipients in Latin America of US investment and one of the five best markets in the world for US agricultural exports. Mexico is also rich in mineral and energy resources and is the world's fourth largest producer and exporter of crude oil.

The United States is Mexico's number one customer. It traditionally buys about one-half of Mexico's petroleum exports, as well as large quantities of machinery and transport equipment, food and live animals, manufactured goods and miscellaneous manufacturing materials. The US is also the largest source of Mexico's foreign investment and tourism earnings. In the period 1983-85, the United States ran a trade deficit with Mexico that averaged $6.7 billion annually.

The Mexican economy will be under severe pressure in 1986 from falling oil prices and its heavy debt service burden. (Mexico's debt service payment this year is about $10 billion on its $97.2 billion external debt.) Petroleum accounts for almost two-thirds of Mexico's export earnings and close to 40 percent of government revenues. Since the beginning of 1986, the average price of Mexican crude has plummeted from $24.50/bbl to the $11/bbl range. This occurred as average petroleum exports fell in the first quarter of 1986 from the 1985 average of 1.4 million b/d to 1.1 million b/d. The Mexican Government anticipates that its shortfall in 1986 petroleum export receipts will be a minimum of $6 billion.

Mexican officials have publicly stated that they will need a minimum of $6 billion to cover their financial requirements in 1986. They have indicated that they do not presently intend to borrow more than the $4 billion approved by the Mexican Congress in the autumn of 1985. Finance Ministry officials have stated that Mexico will seek $2.5 billion from commercial banks, $1 billion from multilateral development banks and $500 million from bilateral sources. They anticipate that the additional $2 billion will be obtained through restructuring Mexico's debt obligations in the Paris Club of $1 billion and increased non-petroleum exports of $1 billion. Some informed sources believe these projections are grossly underestimated and that Mexico will in fact request higher sums from commercial banks and bilateral sources.

The United States seeks to support Mexico's economic recovery and long-term stability. Mexico's economic problems are complex, however, and we see no magic solutions. Consistent with the Baker Initiative, we are encouraging policy measures to foster sustained growth and to repatriate flight capital. We have suggested to Mexican officials that it is

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difficult for foreign companies and private banks to invest in Mexico when Mexico's own private sector is sending capital abroad. We have also indicated willingness to support increased external financing if Mexico undertakes the necessary reform measures.

We have maintained an ongoing, high-level dialogue on economic matters with the Mexican Government. Secretaries Shultz and Baker, USTR Yeutter, Chairman Volcker and Ambassador Gavin have conveyed our interest in strengthening bilateral economic relations, and we have supported increased lending to Mexico by the IMF and multilateral development banks. We have also kept our markets open for Mexican exports. For its part, Mexico has begun to liberalize its import regulations, announced export and tourism promotion programs and it has taken the initiative to seek entry to the General Agreement on Tariffs and Trade, which we have supported. We have encouraged Mexican officials to persevere in these difficult but essential efforts.

Trade is a major element of our relations, with US exports of $13.6 billion in 1985 and imports of $19.1 billion. Both governments have agreed on the importance of strengthening our trade relations. It is important that Mexico continue to have good access to the US market for its exports in order to earn the foreign exchange necessary to meet its external debt obligations.

In 1985, we signed a subsidies understanding which commits Mexico to phase out export subsidies in return for receiving the injury test in countervailing duty cases. We also agreed to negotiate a bilateral trade and investment framework agreement. We are currently in the process of negotiating Mexican accession to the GATT, a step which should have major benefits for both countries as well as for the international trading system.

Other trade issues which we are actively pursuing include our concerns about inadequate Mexican protection of intellectual property rights, export performance, local content and other regulations imposed on US investors in Mexico, and the Congressionally-mandated Generalized System of Preferences General Review.

A bright spot in Mexico's economy and in our economic relations is the rapid growth of in-bond industries (maquiladoras) in Mexico, most of which are 100 percent US-owned. Assembly of in-bond components for re-export has surpassed tourism to become Mexico's second largest foreign exchange earner ($1.3 billion in 1985). About 750 of these maquiladoras now employ about 250,000 Mexicans, mostly along the border, also benefitting the US border economy.

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. Current History, v. 85, January 1986

"The United States tendency to see Mexican insistence on its modified one-party system as an anachronism contrasts uncomfortably with the Mexican regime's apparent belief that steering Mexico through economic changes and even political flux requires close adherence to tradition and secure control."

86-51

Mexico: Challenges and Responses

By Daniel C. Levy
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Although Mexicanists have too often deemed Mexico's political system in crisis and underestimated its enormous capacity for adaptation, the record shows more than a half-century of regime continuity, unparalleled in Latin America. Yet the regime faces a more acute challenge, at least in the economic arena. In turn, attempts to manage the economic crisis through austerity present further challenges to a political system already involved in an indeterminate and sensitive evolution.

How has the Mexican regime responded to the challenges posed by the economic crisis and by the 1985 elections? To what degree has President Miguel de la Madrid engineered continuity and change? De la Madrid assumed the leadership of Mexico's presidentially centered system amid the depths of economic crisis in 1982. His ascension generated high expectations, because of his background (including economics experience and a master's degree in public administration from Harvard University), the serious tone he set, the upbeat feeling generated by the departure of discredited President José López Portillo (1976–1982), and the general sense of renewal associated with Mexico's regular (sexennial) and massive transfer of power. Early indicators buoyed hopes. The economy rebounded, and de la Madrid displayed leadership skills that contrasted with Mexico's erratic and even demagogic experiences under both López Portillo and Luis Echeverría (1970–1976). Both had been vilified immediately on leaving office and López Portillo, while in office, had been attacked in direct ways long considered illegitimate in Mexican politics. The stature of the presidency itself, so important to Mexican stability, seemed jeopardized.

Moreover, in the aftermath of López Portillo's excessive self-aggrandizement, de la Madrid appeared more serious than any recent predecessor about attacking corruption and the unresponsiveness of Mexico's public bureaucracy. His "moral renovation" campaign brought some reforms and the prosecution of a few notorious figures from both labor unions and the government. Before long, however, even optimistic observers could see that reform would be limited by severe obstacles (including certain powerful figures and groups like the oil workers, deeply ingrained practices that benefit the regime, and the decreasing ability to pay adequate wages to bureaucrats). More important, the economic outlook suddenly worsened in early 1985. Thus, in the second half of its term, the de la Madrid administration may face the added challenge of frustrated expectations.

The right has shown some signs of renewal. In addition to its electoral surge, business sectors have been increasingly politicized, particularly in the aftermath of the populism practiced by the two previous administrations, culminating in the 1982 expropriation of private banks. Rising middle-class alienation and changing patterns of political socialization, highlighted by the growing importance of private universities, graduate education abroad, and privately owned television, contribute to the right's growing strength. Above all, technocrats are gaining influence at the expense of more traditionally trained politicians.[1]

Some stirrings associated with the left also warrant the regime's attention. Alienation has been especially notable among intellectuals since the violent and infamous 1968 repression of university students and has been exacerbated by perceptions of technocratic penetration and regime shifts to the right. The independent labor movement has gained strength, and increased tensions have characterized the regime's relations even with the mainline union. On the other hand, while the renewed stirrings of both the left and the right have injected potentially significant and unpredictable forces into the political picture, they have not yet come close to translating into any serious organizational alternative. Similarly, the military remains securely at the service of the regime, but merits a kind of monitoring that would have been superfluous until recently.

THE ECONOMIC CHALLENGE

The de la Madrid administration has apparently rec-

[1]Roderic A. Camp, "The Political Technocrat in Mexico and the Survival of the Political System," *Latin American Research Review*, vol. 20, no. 1 (1985).

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ognized that the economic crisis is its principal political problem. In response, it has initiated economic policies that represent a significant degree of change. Excessive protectionist measures in effect for years have given way to freer trade. Foreign companies are negotiating more flexible terms for entry into (or expansion within) the Mexican market; and Mexico has been bending its traditional insistence on majority ownership by domestic interests, with IBM (International Business Machines) the latest example. At the same time, Mexico has been trying to diversify substantially its economic relations with industrial countries other than the United States and is playing a more assertive role in world oil markets.[2] Mexico has also followed an aggressive foreign exchange policy, while fulfilling its enormous international payment obligations.

Within Mexico, similarly striking measures have been taken. The regime started selling several publicly owned enterprises that represented onerous expenses and that, instead, became revenue sources. In 1985, the federal budget was cut significantly on three occasions. Roughly 30,000 government workers were laid off and an additional 80,000 positions that were vacated in 1983 and 1984 will not be refilled. (The September, 1985, earthquake could place further major strains on the budget.)

Overall, the degree of policy change is suggested by the hesitation and debate in the economic ministries of the Cabinet. One example came with the April, 1985, decision to sign the kind of trade agreement with the United States that the latter has desired for years. Not only the Ministry of Foreign Relations but even generally conservative ministries (e.g., Finance) expressed opposition, yet the Department of Commerce had the President's decisive approval.

On the basis of such developments, some observers predict further economic policy change, including, despite previous resistance, Mexico's entry into GATT (the General Agreement on Tariffs and Trade). They also assume that Mexico will maintain its distance from OPEC (the Organization of Petroleum Exporting Countries); that an opening economy will allow consumers to buy better products at lower prices; and that domestic business will respond favorably to new incentives and pressures by increasing its productivity and reducing Mexico's overdependence on oil exports.

The optimism has a basis in concrete results. Comparisons between 1982–1983 and 1984 through the beginning of 1985 are notable. During 1982 and 1983, private investment fell by approximately 17 percent and 22 percent, respectively, because of poor economic conditions and prospects and, perhaps, a business strategy of withholding money as a bargaining chip with the new administration. Business probably tried to redefine "the rules of the game" in the aftermath of the bank expropriation.[3] An indicator of change is that private investment rose almost 9 percent in 1984. Additionally, 1984 private-sector imports (about $6.5 billion) represented a 52 percent increase over 1983 levels. Together, higher investments and imports contributed to an economic growth rate of 3.5 percent in 1984; this followed two years that had seen the first negative rates in three decades. Concomitantly, Mexico registered a $12.2-billion surplus in its 1984 trade account, with nonoil exports growing at 18 percent over the previous year. Mexico's debt was restructured, and it decreased as a share of the gross domestic product. Regarding inflation, the annual rate of over 100 percent in early 1983 fell to about 55 percent in mid-1985. Compared to what was happening in much of Latin America, such indicators showed enviable progress, despite an unfavorable international market for oil producers.

Not surprisingly, however, there has been a bleaker side to the economic picture. Austerity and rationalization have meant tremendous hardship, certainly for the poor and middle classes. Real wages have fallen over 30 percent since de la Madrid came to power. One can even see an important thread of continuity in economic policy in the emphasis on growth and international credibility, with harsh social consequences, however tragic, regarded as acceptable. Naturally, much of the left criticizes not just the results but the basic orientation of the policy; the selling of public enterprises is one example.

Perhaps less obviously, many businesses have expressed strong reservations, considering the changes to be too little, too late. In fact, the regime has not been able to strengthen its political credibility as much as it had hoped, but credibility is necessary for the success of even technically appropriate policy. Ironically, at times credibility has apparently been higher outside than inside Mexico. While it could be argued that foreign bankers have not had options other than supporting Mexico, it is also true that they have been willing to restructure Mexico's nearly $100-billion foreign debt. By contrast, many Mexican entrepreneurs are still reluctant to invest, often holding their money abroad. As a partial consequence, the regime may be opening the economy to foreign business.

For whatever reasons, the economic news by mid-1985 was alarming. Despite the budget reductions, the 56 percent inflation figure (based on January-August) approached the 1984 figure and, by July, the public deficit passed the figure targeted for all of 1985.[4] The current account, showing big surpluses in 1983 and 1984, fell to a minimal surplus, while international reserves fell from $6 billion to $3 billion between December, 1984, and July, 1985, largely because of increased capital flight. Then, on September 19, the IMF (International Monetary Fund) declared that Mexico, having failed to meet certain austerity targets, was not qualified for a pending $950-

[2] Gabriel Székely, "México y el petróleo, 1981–1985: Crónica de amargas lecciones," *La Jornada*, September 1, 1985.

[3] Figures in this paragraph are from official reports of the Banco de México.

[4] Data on 1985 from Wharton Econometric Forecasting Associates, *Latin American Economic Indicators*, vol. 3, no. 9 (1985).

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million loan. IMF authorities changed their tough posture soon after learning of the earthquake which, by savage coincidence, struck Mexico that very day. Foreign bankers also extended 1985 repayment deadlines until March, 1986.

THE ELECTORAL CHALLENGE

Rarely in recent decades have nonpresidential elections in Mexico generated as much interest as those held in July, 1985. Particularly striking was the United States interest, as reflected in American press coverage. Some saw a key midterm test for the de la Madrid administration. How would a beleaguered public rate the President's handling of economic and other challenges? How strong was the regime in light of the economic crisis? Foreign expectations may have been heightened by the reemergence of electoral politics in nations like Argentina, Brazil, Peru and Uruguay—as well as by the closely watched and controversial elections in El Salvador and Nicaragua. Could Mexico afford to look less democratic?

Expectations were additionally raised by the major opposition party's increasing strength in recent elections. In terms of seats gained, the PAN (National Action party) has been the chief beneficiary of the 1977 reform, which set aside 100 of 400 Chamber of Deputy seats for opposition parties that obtain at least 1.5 percent of the national vote and gain fewer than 60 seats under the simple majority method (by district) used for the other 300 seats. The reform itself had been launched partly as a response to the apathy and abstentionism plaguing the regime in the 1970's, and partly as a way to bolster the left as a counterweight to the right, thereby portraying the PRI as a responsible middle. Once initiated, however, the reform had to be managed carefully. In any case, in the 1982 congressional elections the PAN had gained 50 of the 100 seats, capturing over 17 percent of the national vote. The PAN did well in the north, and its successes were repeated in 1983, in local elections in large northern cities, highlighted by victories in several state capitals.

In 1985, the major northern states of Nuevo León and Sonora were among the seven states with governorship openings. These two races overshadowed the national voting for the Chamber; many believed that the PRI could be beaten for those governorships and that it might for the first time honor the results of a gubernatorial loss (setting the stage for further contests in 1986, when 14 governorships would be at stake).

Political legitimacy was on the line not only because of international attention but because de la Madrid had tied his word—that he would honor the results—to his overall campaign for honest responsibility in government and trust in the presidency. He had also allowed at least some opposition victories in 1983 and, more broadly, had respected considerable freedom of speech, the press, and dissent, accepting criticism with dignity. Therefore, some critics saw in the 1985 elections a major blossoming of political reforms already in progress. But more sober observers were reserved in their expectations.

In fact, the PRI took all seven governorships and did not concede that even the major contests were close. Instead, it continued to give way a little more in the Chamber. Compared to 1982, the PRI vote dropped slightly, to 64.7 percent, and it surrendered 11 rather than just 1 of the 300 district-based seats.[5] But the fracturing of the opposition is striking. The PAN saw its vote fall slightly, to 16.7 percent, while its proportional representation fell from 50 to 32, more than offsetting its increase from 1 to 9 in district wins. The left increased its vote a few percentage points, to 13 percent, reflecting either new strength or some manipulated balancing of right and left, yet no single leftist party won more than 3.5 percent, i.e., 12 seats. It is difficult to gauge how the PRI may have been hurt by its questionably grand victory margins and by the fact that 49.5 percent of the more than 35 million registered voters still abstained.

FRAUD AND PROTEST

Thus, the results represented basic continuities in the regime's response to electoral challenges. Fraud was evident in missing ballot boxes, duplication of names, last-minute disqualification of opposition poll watchers, and so forth. And if the PRI cheated as usual, the PAN protested as usual. The protests involved some violence and repression but probably not to an unusual degree. Indeed, for the most part the PAN accepted the rules of the game. Notably, leftist parties backed the PAN in some of its claims, but all electoral college representatives avoided the extreme protest of declining seats in the Chamber.

Why did Mexico not go further to break traditional electoral patterns? First, as in the corruption issue, even a genuine disposition for change cannot easily brush aside deep-seated structural factors that perpetuate certain practices. Whatever the President's declarations, many government and PRI bureaucrats did not believe that Mexico should open the political process, at least not while dealing with the dangers of economic crisis and social austerity. Many national and local party leaders feared for their careers if they lost to the opposition. The minister of *Gobernación* (Interior)—traditionally a presidential aspirant—would not want to preside over an unprecedented PRI defeat.

In fact, notwithstanding the PAN's gains in the last few years, one can also find evidence of the regime's unwillingness to strengthen the reform very much. For exam-

[5]Data from the electoral college reported in *Excélsior*, July 17, July 22, and August 30, 1985. Among other leftist parties the vote and seat shares were: Mexico's Unified Socialist party and Socialist Workers party, 3.5 percent and 12 seats each; Populist Socialist party, 2.6 percent and 11 seats; Mexican Workers party and Revolutionary Workers party, 1.7 percent and 6 seats each. The rightist Democratic Mexican party received 3 percent and 12 seats, while the obscure Authentic party of the Mexican Revolution was awarded 2.4 percent and 11 seats (including 2 district wins).

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ple, the PRI took 106 of 118 municipal positions and 139 of 146 state legislative seats in the 1983 elections, results that were hard to accept at face value. The governorships of Nuevo León and Sonora would be bigger prizes. Although some believed that Mexican "federalism" would render an opposition governorship impotent, there was the danger that a governorship could bolster otherwise more isolated PAN municipalities. Of course, strong and specific directives from the President could not have been easily ignored, but these were not forthcoming.

Most important, elections have not been the "test" many attributed to them. They have provided a test of the regime's priority on democratization, or its handling of the tradeoffs between independent political participation and its own control. But Mexico's elections are not fundamental tests of popular opinion or citizen reaction to the President's handling of economic challenges. Crucially, the regime and its official party continue to regard power-sharing with other parties as a foreign model, alien to the bases of Mexico's enviable stability.

Furthermore, the 1985 elections reflect significant elements of continuity in the broader political arena, where there is still a shortage of political information necessary for democracy and a weak organized opposition on both the right and the left.

First of all, the public never knows whether the reported vote count is accurate. Beyond that, most of the public has been shielded from the electoral process by the national media's inattention; typically, Mexico City's residents know more about events outside Mexico than about events in Nuevo León or Sonora. The PRI's campaign hardly provided specifics on the basis of which people could evaluate its performance in office. Nor was information available on such aspects of the campaign as the extent or source of PRI funds (tied to the government). Just as typically, however, the PAN did no better. It denounced the PRI as a long-standing failure and called for change. It blamed the PRI for corruption and economic difficulties but it did not tell citizens what alternative it offered.

The 1985 elections also confirmed the lack of a viable alternative to the more or less centrist PRI rule. Most speculation about a rising alternative has focused on the right. But however many votes it garners, the PAN still lacks the leverage to obtain major government positions.[6] Moreover, it is unable to articulate its positions so that it can capitalize on discontent. In too many instances, it has not managed even to select attractive candidates. Crucially, it has not been able to galvanize and organize what remains an unintegrated right. Further, the right continues to lack an intellectual base comparable to the left's to articulate its positions.

Increasingly, PRI–PAN campaigns are struggles between two elites offering few specific policy contrasts. Moreover, business (itself divided on many issues) continues to gain more from working with the PRI than the PAN. Similarly, the relevant choice for the rising crop of technocrats is usually the PRI or no party affiliation. Finally, whatever its own rightist tendencies and growing influence, privately owned television has hardly boosted an organizational alternative on the right.

Of the left it might simply be said that less was expected and less was achieved. Like the right, the left is internally split but, much more than the right, it remains (as it has been for decades) electorally split. The 1981 creation of the PSUM (Mexico's Unified Socialist party) aimed at increased strength through unity. But, as reflected in recent elections, the PSUM has not been able to create a mass following to the PRI's left; thus the PRI remains in the rather comfortable position of defending Mexico's "revolutionary heritage" from the principal threat on the right. Additionally, renewed fracturing occurred in early 1985, because a new PSUM-led front was not inclusive. In most districts, the left could not agree on a coalition candidate.

Still, the division of a small pie is less noteworthy than the size of the pie itself; the left has been unable to attract a mass backing despite Mexico's economic calamities and the regime's painful responses to them. Clearly the problem lies not just with the electoral left but with the left's overall weakness in Mexican politics. Illustratively, media on the left continue to attract only a very small—and privileged—audience. And even as organized labor suffers and distances itself more than usual from the regime's policies, it finds itself in disarray. No organizational force outside official channels has been able to build a strong base among those suffering most: the unemployed, the nonunionized workers and the peasantry.

All these important political continuities, of course, do not suggest the absence of change. The recognized electoral strength of the PAN, and the representation of both right and left in the Chamber, could not have been assumed just a few years ago. Furthermore, stimulated by such challenges, the PRI has responded with a degree of internal reform. For example, it selected vigorous candidates, with good credentials among technocrats, for the two key governorships in 1985. Although its Sonoran candidate emerged from a familiar political career in Mexico City, his counterpart in Nuevo León had actually built a local career. In 1984 and 1985, the PRI even experimented with primary-like procedures to open up the participatory process.

Nevertheless, the PRI did not move far toward democratization. Most candidates were chosen in traditional, restrictive fashion. The PRI has "modernized" in ways that have favored party centralization at the expense of its mass-based labor and peasant constituencies. And the party's twelfth national assembly (1984) frustrated those hoping for reforms aimed at making the PRI less a mouthpiece for the regime and more a representative of its constituency; instead, the assembly merely issued the PRI's familiar platitudes.

[6] See Soledad Loaeza, "La construcción de la burbuja," *La Jornada*, August 4, 1985.

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In its efforts to respond to economic and political challenges, Mexico has felt undermined by the United States, particularly by some officials of the Reagan White House and the National Security Council. Mexico believes that these officials either grossly underestimate the severity of the problems Mexico confronts or gauge Mexican progress by United States standards. It believes that they are tragically uninformed about the infeasibility of alternative Mexican responses. Indeed, Mexican observers do not see how the de la Madrid administration could have responded to its economic challenges in ways more favorable to United States interests, given the basic assumption that Mexican stability is a high-priority interest. Although probably few Mexicans perceive a deliberate United States attempt to destabilize the de la Madrid regime, many are more receptive than usual to that kind of interpretation.

Tensions generated by United States reactions to Mexico's economic and electoral policies are especially important because they are indicative of similar tensions over other Mexican–United States concerns. Among these are prospects for some version of the immigration bill almost passed by the United States Congress in 1984, which could hamper Mexico's "safety valve" just as Mexico faces acute employment problems. Another example involves United States reactions to the 1985 murder in Mexico of a United States drug agent, including charges of Mexican corruption and car-by-car searches at the border (threatening to slow commerce and tourism, which Mexico so desperately needs). But perhaps nowhere are bilateral tensions more poignant than in Central American policy. Again, Mexicans believe that some United States officials underestimate the dangers Mexico faces and blithely overlook the dire consequences that could flow from alternative policies.

Mexicans clearly resent any American inference that Mexico's Central American policy is guided by an affinity for leftism or by a need to needle the United States. In fact, Mexican leaders are guided above all by considerations of Mexican stability. Given its geography, Mexico has more to lose from an aggravation or prolongation of Central American conflict than any other non-Central American nation. The presence of hundreds of thousands of refugees threatens to drain Mexico's already limited resources. Government aid sometimes alienates Mexico's own poor, while government inattention brings criticism from the left and from international organizations. The refugee problem has added a volatile element to Mexico's generally tense relations with Guatemala. And exacerbated regional volatility could expand the role of Mexico's military. Furthermore, there are some signs of left-right polarization within Mexico—even within the regime itself—over the refugees and other aspects of the Central American threat. On top of all this, intensified Central American conflict could lead to one or another alternative that would very seriously undermine Mexican–United States relations.

Those in the United States who do not appreciate these dangers, Mexico argues, are mistaken in their belief that Mexico could take a more pro-United States position. Continued United States carping is especially irksome, in view of the fact that de la Madrid has already moved away from the more provocative aspects of his predecessor's policies. He has moderated and placed conditions on support for the Sandinistas, restored full diplomatic status with El Salvador, and transferred refugee camps away from the Guatemalan border (thereby pleasing the Guatemalan government and infuriating elements of the Central American and even Mexican left). Such measures are not reversals of basic regime orientations as much as tactical adjustments to change within Central America and in the Mexican economy, but they provide further evidence that Mexico's prime interest is its own stability and that it seeks not leftism but respectful working relations with all neighboring powers.

Crucially, the de la Madrid administration believes that the administration of President Ronald Reagan should not let its differences over Central American policy harm Mexican–United States relations and that—judged on their own terms—Mexican responses to economic and electoral challenges ought to bring more United States support than they have. Thus, Mexico is irritated by the mixed United States response to de la Madrid's handling of the economic crisis. Has he not, at political risk, done much of what one would expect, given a United States definition of the problem? In return, however, Mexico sees the United States pursuing detrimental economic policies that the United States says Mexico should accept because these policies are the natural consequences of United States global status and the rules of the international economic game. Mexico should wait for United States economic growth to stimulate Mexican recovery.

But whereas the United States tends to understate both the economic challenge and Mexico's bold policy response to the economic problems, it has inflated the challenge and thereby undermined the Mexican regime's ability to engineer bold policy change on the electoral side. United States media eagerly covered the PAN's rise and then denounced Mexico's failure to democratize.

United States Ambassador John Gavin's meeting with PAN leaders has been widely viewed as an endorsement of either the PAN or two-party competition for power. (In fact, perceived coziness with the United States may have brought about an anti-PAN backlash.) Overall, the Unit-

(Continued on page 37)

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ed States tendency to see Mexican insistence on its modified one-party system as an anachronism contrasts uncomfortably with the Mexican regime's apparent belief that steering Mexico through major economic changes and even political flux requires close adherence to tradition and secure control.

During 1986, both Mexico and the United States will hover around the midpoints in their incumbents' administrations. By 1987, each nation's 1988 presidential campaign will be under way in earnest. Coincidences in the political calendar may underscore the interdependence of the two nations. Relatively little working time remains for better understanding between the two administrations as Mexico continues to grapple with the very difficult challenges it confronts. ■

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The Economist

FEBRUARY 8 1986

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Cutting that budget

America's federal government spends more every year than the world's 40 smallest economies collectively earn in a decade. Yet its politicians seem to have as much chance of controlling its budget as the average Haitian has of going to Harvard. By the end of last year, Ronald Reagan and Congress could agree only on a desperate measure, the Gramm-Rudman act. It was designed to eliminate federal deficits by 1991, brutally and indiscriminately if need be. The western world's most powerful politicians were admitting that they found it well-nigh impossible to refuse demands for money and tax breaks from almost any constituent or sectional interest; in their hands, the budget process was all cheques, no balances.

To judge by this week's events, it will remain that way. The biggest difference between the president's proposals this year and last is that in 1986 his officials have produced seven fat volumes of wishful thinking instead of five. The budget for the next fiscal year, like its predecessor, asks for real growth in America's spending on defence, but cuts deeply into domestic programmes (details on page 23). Mr Reagan's proposals hit the Gramm-Rudman target for the year that starts next October—a deficit of $144 billion—but, unwisely, they make no concessions to Congress. In 1985 the president asked for, and was refused, many of the cuts he now wants. Congress will deny him again, unless he shows some readiness to cut defence, or raise taxes, or both. But Mr Reagan is not budging, determined to play chicken on the deficit for a bit longer.

Maybe it will, maybe it won't

By the autumn, the Gramm-Rudman law may have forced its intended cut of $40 billion in next year's budget deficit. But if forecasters are then putting the 1987 deficit at more than $10 billion above target, the same law will automatically chop the excess. It will do so by hacking equal percentages from a narrow set of spending programmes: only 27% of the budget is on the block. This guarantees that the automatic cuts will be ridiculously damaging, which is why Senators Gramm and Rudman hope they will never happen.

The new budget law will work as planned if this dire prospect forces a compromise between Congress and the president. The outline of such a compromise is already clear. It would probably include (a) a slower rate of increase in defence spending; (b) some of the domestic-programme cuts Mr Reagan is asking for; and (c) some extra revenues—not, alas, from an economically sensible petrol tax, but from a politically pusillanimous oil-import fee.

By offering such a combination of measures this week, Mr Reagan could have saved the budgetary damsel from Gramm-Rudman's cow-catcher. They are still the likeliest outcome. But Gramm-Rudman may fail to work as intended. The Supreme Court could rule the act unconstitutional, which would allow a re-run of last year's budget farce: a budget proposed in February, disputed through the summer, adopted in August, but followed, on October 1 1985, the start of the 1986 fiscal year, by the passage of not one of the customary 13 appropriations bills. Instead, although half a dozen such bills were eventually signed into law, Congress had to resort to an omnibus spending bill which included money for everything from agriculture to defence to transport to Washington, DC. Not since 1975 have all the appropriations bills been passed at the start of the fiscal year.

Or suppose the act is upheld, and neither Congress nor the president is willing to blink first: as the automatic cuts loom, Congress simply repeals the act. Too embarrassing? Not as embarrassing as sacking tax collectors, FBI agents and soldiers. Between these extremes lies plenty of scope for the budgetary fudge and fraud at which Congress has become so adept.

Whatever happens, the notion that Gramm-Rudman has restored discipline to the budget process can be discarded. With luck, Congress and the president will eventually agree on a credible scheme to cut the deficit, but nobody can safely take it for granted until it happens. Even then, the uncertainty will start all over again: the fact that Gramm-Rudman may by fluke produce a compromise this year is no guarantee that it will do so next time. Meanwhile, the world's biggest economy is jogging along without a fiscal policy.

Does that matter? Yes. Once the budget deficit shrinks, the Federal Reserve can let interest rates fall without fear of rekindling inflation. Changes in monetary policy are slower to take effect than those in fiscal policy, so ideally the Fed should anticipate cuts in the deficit, and loosen money a year or more before the fiscal screw tightens. Some members of Congress have

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recently written to Mr Paul Volcker, the Fed's chairman, saying that it is his turn now. Mr Volcker is rightly sceptical. Budget confusion means that interest rates in America and elsewhere stay higher than they need to.

Changing budgetary procedures is not the answer, if all that means is some version of the Gramm-Rudman principle. The act suffers from the same flaw as most other ideas for reform. It is a self-imposed, and self-removable, discipline—as it would be for a man to tell himself not to steal, on pain of cutting off his own hand. An amendment to the constitution to enforce a balanced budget, proposed once again by Mr Reagan in his state of the union speech, would be less easy to cast aside but just as inappropriate. If Congress and the president had really wanted to make deficit reduction their top priority, they could have had their spending cuts and higher taxes last year. Instead, they were busy approving the Gramm-Rudman act. New proposals for reform might serve only as another distraction from the painful business of refusing to indulge every lobbyist in town. That was the challenge for Mr Reagan this week. He ducked it. It is now up to Congress.

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p. A4

CBO Says Reagan Budget Misses Target

Proposal Termed $15.7 Billion Short of Deficit-Cutting Goal for Fiscal 1987

By Helen Dewar
Washington Post Staff Writer

President Reagan's budget falls $15.7 billion short of the $144 billion Gramm-Rudman-Hollings deficit-reduction target for fiscal 1987, largely because defense spending was underestimated, the Congressional Budget Office said yesterday.

The nonpartisan CBO concluded that Reagan underestimated deficits by $151 billion over the next five years, enough to miss the fiscal 1991 target of a balanced budget by $40 billion.

In another rebuff to Reagan's spending blueprint, Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) said "few, if any," committees in the Republican-controlled Senate have indicated willingness to go along with the specific deficit reductions in that plan.

"The response [from Senate authorizing committees] has been very weak, I'm sure the weakest so far" since Reagan took office five years ago, said Domenici in reference to program terminations, asset sales and user fees that the president proposed in hopes of meeting the target in the Gramm-Rudman-Hollings budget law.

The two developments appeared to increase pressure on the administration to accede to a budget compromise incorporating a tax increase as the price to be paid for a resumption of Reagan's military expansion program, which was stalled in a budget squeeze last year.

Domenici has been warning since Reagan unveiled his budget proposal a month ago that it will be difficult if not impossible to finance new military growth without a tax increase, possibly in the $10 billion to $20 billion range.

CBO's conclusion that Reagan's military program would cost $14.5 billion more than the administration claims, coupled with congressional reluctance to go along with the domestic cutbacks that offset military increases in Reagan's budget, seemed to strengthen Domenici's hand.

But Sen. Ted Stevens (R-Alaska), chairman of the defense appropriations subcommittee, disputed CBO's conclusion and said his panel would not be guided by it in developing a defense spending bill for next year.

CBO's conclusion was welcomed, however, by House Budget Committee Chairman William H. Gray III (D-Pa.), who, like Domenici, was on record as charging that the administration was underestimating defense spending.

This could be important in clearing away the partisan underbrush that has often cluttered the path to House-Senate agreement on budget ground rules and could make it easier to produce a congressional budget with bipartisan support. Such an accord is not likely to resemble Reagan's blueprint.

In his budget, Reagan claimed that proposed program cutbacks and terminations, user fees and other savings totaling $38 billion would produce a fiscal 1987 deficit of $143.6 billion, just under the $144 billion target set by Gramm-Rudman-Hollings.

But CBO, assuming a higher spending rate for the military programs that Reagan proposed as well as somewhat slower economic growth and higher interest rates, recalculated Reagan's deficit for next year to be $159.7 billion.

This is $15.7 billion over the target and $16.1 billion more than Reagan estimated. The dispute over defense accounted for $14.5 billion of the difference.

Instead of a small surplus in fiscal [illegible] Gramm-Rudman-Hollings [illegible] budget, Reagan's plan would have a deficit of $40 billion, CBO contended.

A spokesman for the president's Office of Management and Budget [illegible]

The defense spending dispute involves how much will actually be spent in a given year under spending authority that Congress approves, often for programs that are spread over several years. CBO said it was guided by historical patterns, while OMB assumed a slower spending rate for a variety of reasons, including better management and uncertainty over the effects of Gramm-Rudman-Hollings.

In related action, the House approved an extra $5 billion to finance existing farm price-support and other subsidy programs, enough to last until late summer, according to House Appropriations Committee Chairman Jamie L. Whitten (D-Miss.). While required under existing law, the funding will add to deficit-reduction problems as the year wears on.

Also pending before Congress are proposed [illegible] year's farm bill [illegible] to the deficit.

Efforts to [illegible] deficit-reduction [illegible] from last year [illegible] in the Senate [illegible]

[illegible]

BY JAMES K.W. ATHERTON—THE WASHINGTON POST

Domenici, left, shown with Sen. Lowell P. Weicker Jr. (R-Conn.), has found little willingness to accept Reagan's budget.

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MC56 For LA Mexico

TOO MUCH GOVERNMENT
How 'La Crisis' Is Crippling Mexico

BY FORREST D. COLBURN

JOSE LOPEZ PORTILLO

HERMOSILLO

MEXICO'S most prestigious daily, *Excélsior*, publishes a magazine of news and commentary every Thursday appropriately entitled *Jueves*. The issue that ushered in 1986 had a grim cover: A poor Mexican—one shoe missing, his clothes tattered, his body beaten and bruised—excitedly waved goodbye to a seer wearing a toga emblazoned with "1985." Behind the unwitting Mexican stood a bully of an infant sporting a sash identifying him as "1986." The infant clutched an oversized club adorned with the greeting, "Happy New Year." The year just passed was difficult for Mexicans, and this one will be equally rough.

From 1940-70, Mexico's economy grew at an annual rate of almost 6.5 per cent—a pace surpassed only by Japan and Finland among the non-Communist developed nations and by a few advantaged developing countries, notably Libya, Korea and Israel. The phenomenon was dubbed the "Mexican miracle."

Large segments of Mexico's population were left behind, however, especially rural Indian communities. In 1970, the average urban salary was five times higher than the average rural salary. Indeed, the ability of the rural poor to eke out a living has been called "Mexico's other miracle." According to the World Bank, the distribution of income here has long been worse than in El Salvador.

Mexico's steady economic growth was nonetheless impressive. Most citizens enjoyed a much more comfortable life than their parents did. And there was at least the hope that the marginal poor could someday be brought into the fold. In addition, Mexico's prosperity brought legitimacy and stability to the political offspring of the Mexican Revolution, the governing Institutional Revolutionary Party (PRI).

Then in 1970, under President Luís Echeverría, Mexico's economy began to unravel. By 1982, when José López Portillo's Administration completed its tenure, Mexico had a 600 per cent devaluation of the peso for the year, a debt of U.S. $85 billion, 100 per cent inflation, rising unemployment, and the first negative growth rate since the Revolution. Although what became known simply as *la crisis* was brought to a climax by falling oil prices and a contracting world economy, its underlying causes were expansionary fiscal and monetary policies that had been designed to ensure growth at any cost (or, as one cynic put it, the spending of oil revenues like lottery winnings), plus the peso's continued overvaluation.

With the folly of his economic policies revealed, López Portillo chose a political solution to save face. In his last State

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of the Union message on September 1, 1982, he nationalized the Mexican banking system and introduced foreign exchange controls. The startling expropriation of the banks was decreed "in the national interest." They had "betrayed" and "plundered" the country, it was said, by aiding and abetting the *saca-dólares* (individuals who had sent money abroad). But the move could not be justified on economic grounds, even if it did temporarily save López Portillo from public humiliation.

Worried Mexicans and nervous international bankers alike, therefore, looked to Mexico's incoming Administration to end *la crisis*. Miguel De la Madrid assumed the Presidency on December 1, 1981, and quickly committed Mexico to a program of austerity and efficiency tailored by the International Monetary Fund. He pledged himself to reverse the ever-growing government budget deficit, which in 1982 was equivalent to 18 per cent of the country's gross national product (GNP).

The following year, Mexico's GNP declined by 5.3 per cent and inflation was 81 per cent. International bankers were heartened, though, by the reduction of the deficit to 8.5 per cent of GNP. According to preliminary figures, Mexico managed to attain positive economic growth in 1985, while holding the deficit at 9.6 per cent of GNP and bringing inflation down to 57 per cent.

Yet these macroeconomic statistics mask the extent to which Mexico's economic problems have gone from bad to worse. The foreign debt, so alarming at $85 billion, has climbed to $96 billion in three years. More troubling to Mexicans (few of whom believe the debt will ever be paid), though, is their declining real incomes. Wage increases have not kept pace with rising prices of essential goods and services. Last year, for example, they went up only around 30 per cent compared with the 57 per cent general hike in price levels. Announcements by toy manufacturers that their already depressed industry sold 25 per cent less toys during the 1985 Christmas season is merely one of the many indicators that show life still is getting more difficult for middle-class Mexicans.

Furthermore, the statistics available apply largely to the middle class; everything suggests that the poor, who always have had a hard time in Mexico, are now having an even harder time. In fact, there is some evidence that the country's inequitable distribution of income has worsened. A study by an economist at the National University has concluded that average urban salaries are now 6.25 times higher than their rural counterparts.

Many of Mexico's continuing economic problems can of course be traced to the drop in oil prices. Nearly 70 per cent of its foreign exchange comes from oil, and 50 per cent of the government's revenues is derived from the state petroleum company, Pemex. The volume and earnings of petroleum exports fell both in 1984 and 1985. A Mexican economist has predicted that earnings from petroleum will fall another 13 per cent in 1986. His guess as to the precise level of the decline is probably no better than those that are less pessimistic, but the point is no one doubts earnings will slip again.

Mexico recently cut its oil prices and announced it would in the future adjust them on a monthly basis, to stay competitive with the volatile world oil market. More changes may be forthcoming, possibly including an easing of restrictions on the sale of oil to Mexico's principal customer, the United States. (Jealous of its independence, Mexico currently limits single-country sales to 50 per cent of its total production.)

IF A SIGNIFICANT part of Mexico's economic troubles can be blamed on the international oil market, it is increasingly obvious that the government itself must bear some of the blame as well. De la Madrid, only halfway through his six-year term, is the subject of a new book whose title focuses on his failure to confront the crisis, *El Fracaso de Miguel de la Madrid Ante la Crisis*. The persuasive argument presented by the author, Victor Manuel Cuevas, traces the country's morass to the government's steadily expanding participation in the economy.

Efforts to promote growth through state intervention were initiated during

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the reign of Luís Echeverría and accelerated by López Portillo. In 1970 there were 86 public enterprises in Mexico. In 1982, before the nationalization of the banks, there were 947 public enterprises. Not surprisingly, this thrust was accompanied by an explosion of government bureaucracies that began undertaking everything from rural development projects to the promotion of popular culture. With the nationalization of the financial institutions, government responsibility increased further: Not only did the state become *the* banker, it assumed responsibility for the myriad of companies that were either partially or totally owned by the banks.

Today the government is by far the largest employer in the country, and according to several estimates accounts for half of Mexico's GNP. Besides owning and managing the all-important petroleum industry, it presides over an eclectic conglomerate consisting of textile mills, most of the movie industry, real estate companies, luxury hotels, lumber mills, sugar refineries, and virtually every other type of business imaginable. It even runs a golf course.

Since the state's involvement to this degree has mushroomed in the last decade or so, there is little systematic information about its efficiency relative to the private sector. Nonetheless, horror stories have begun to emerge that underscore what a white elephant government administration has been. Public enterprises are said to suffer a whole host of maladies: inadequate definition of objectives, poor organization, underutilization of resources, lack of cost control, poor coordination with other government enterprises and bureaucracies. Whispers of corruption also abound. The latest of these cite personal loans to bureaucrats that are many times higher than their annual salaries.

What the state does not run it often regulates, and here too it is accused of promoting inefficiency. The government regulates the prices of basic grains, for instance, and sets them uniformly for the entire nation. Consequently, agricultural producers in areas with higher than average costs, such as northwest Mexico, no longer find it worthwhile to cultivate basic grains. Equally debilitating has been the failure of the expansive Mexican state to carefully and convincingly delineate the respective roles of the public and private sectors. Because it feels the "rules of the game" are not clear, the private sector inclines toward caution rather than risk-taking.

Cuevas and other critics argue that De la Madrid has sought to reduce Mexico's deficit by raising revenues when he should be reducing unproductive outlays. Instead of freeing itself of unprofitable enterprises and unnecessary bureaucracies, they maintain the government businesses boost their prices to consumers where they have a monopoly, as many do. Or else the government raises taxes to shore up undertakings that face competition and to hold together its swollen managerial groups.

JESUS SILVA HERZOG

International bankers are appeased by this—or any—method of controlling the national deficit. It matters little to them that nothing concrete is happening, that the private sector and the general public are simply being forced to underwrite unrestrained government expenditures. The bankers' narrow interest is whether Mexico lives within its means; the more fundamental issue of the economy's true productivity is not their concern.

Why is Mexico's President pursuing a course that is so patently empty? Ideology may be part of the answer. More persuasive is the view that spreading money around is politically useful. Mexican politics runs on cooptation, the trading of small favors for allegiance. A big budget means a bigger bag of favors.

Under De la Madrid the private sector has had only one unequivocal victory against the state—the dismantling of the agency responsible for exports, which was in reality hindering the sale of goods abroad. A few public enterprises have been unloaded, but invariably in an ambiguous fashion. A case in point is a company that manufactures bicycles. It was sold not long ago to the powerful Mexican labor union, the Confederation of Mexican Workers. Since the union is allied with the Administration (much rhetoric to the contrary notwithstanding), it is not clear to what extent the firm will be made to stand on its own feet financially.

The President and Finance Secretary Jesús Silva Herzog have pledged themselves to making the public sector more efficient. No one doubts that they would like to fulfill their promise. The trouble is they have yet to figure out how to make the public sector worthy of its cost in a way that would in their view be politically feasible.

Meanwhile, Mexico is going about trying to service its astronomical debt in a period of falling oil prices in predictable fashion. Herzog has already made his first trip to the United States in search of the $4 billion Mexico estimates it needs to borrow in 1986, assuming a precipitous plunge in the value of its crude does not send the figure up to $8 billion. Despite denials, it is hard to believe this is doing anything more than borrowing from Peter to pay Paul—or perhaps merely borrowing from Paul to pay Paul. In the short run there may be no alternative. But if the country is ever to relive the "Mexican miracle," it must put its own economy in order. And that will necessarily entail a thorough revision of the government's business practices, or its getting out of the business of being in business.

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Journal of Commerce
April 30, 1986 p. 4A

Budget Deficit Doubles In Mexico

By WILLIAM A. ORME Jr.
Journal of Commerce Special

MEXICO CITY — Falling oil revenues and federal overspending doubled Mexico's budget deficit last year while economic growth slowed and the balance of payments surplus nearly vanished, the central bank revealed in its annual report for 1985.

The Banco de Mexico reported that the Mexican economy last year expanded by a scant 2.7%, less than the 3.5% growth achieved in 1984 and originally projected for 1985.

The current account surplus — the measure of the net balance of foreign trade and capital transactions — shrank to US$541 million last year, a dramatic decline from 1984's US$4.24 billion surplus, the central bank said.

The budget deficit, considered by most analysts a more severe economic problem for Mexico than the foreign debt, ballooned to 9.9% of Mexico's gross domestic product in 1985, the Banco de Mexico said in its annual report. The government's stated goal was to reduce the deficit to 5.1% of GDP last year, the bank pointedly noted.

Mexico's budget deficit is again expected to reach or surpass 10% of GDP this year, making it in relative terms twice as large as the U.S. federal budget deficit, which is equal to approximately 5.5% of the U.S. GDP.

In an unusually blunt appraisal of the government's budget performance, the Banco de Mexico said that while declining oil revenues reduced anticipated tax revenues by 15%, budget authorities actually increased spending by 13% above the amount congressionally authorized.

An earlier draft of the 1985 annual report, according to published accounts, contained even harsher criticism of the De la Madrid administration's failure to compensate for oil income losses with spending cuts and hiked taxes and service fees.

Further exacerbating the deficit was last year's 63.7% inflation rate, far above the 35% originally projected, the central bank reported. The high inflation rate forced a parallel increase in peso interest rates, nearly doubling the anticipated cost of financing the domestic public debt, the bank said.

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Wall Street Journal
February 14, 1986 p. 21

Mexico Tries Pumping Up Non-Oil Exports

MEXICO CITY—It is no secret that declining oil prices have played a role in the timing of Mexico's recent application to join the General Agreement on Tariffs and Trade (GATT). When oil prices were high enough to provide the required funds for Mexico's capital needs and foster steady growth in the economy, there was little imperative to move toward GATT membership. However, since 1982 (and particularly in the past month) the world-wide decline in petroleum prices has forced us to rethink the issue. Mexico has had to choose between increased dependence on international borrowing and increased emphasis on non-petroleum exports. For the nation's short- and long-term development the choice was obvious.

The Americas

by Eduardo Arcaraz

Mexico's GATT decision has several potential benefits both for itself and its trading partners, but these are not readily apparent without an understanding of Mexico's economic development.

The present conditions of the Mexican economy are a direct result of the development model based on the concept of "import substitution." This concept emphasized the need to protect fledgling domestic industries even if protectionism resulted in certain inefficiencies. Today, it has been conceded by Mexican government officials and business leaders that the value of the import-substitution concept has been exhausted.

Recognizing this, the administration of President Miguel de la Madrid has designed a new economic policy which, despite ups and downs, is guiding Mexico along the path of a development plan more efficient than the one it replaced.

In 1983 a National Development plan adopted by the de la Madrid administration put a high priority on allocating resources more efficiently toward strategic activities, especially the promotion of sales of Mexican products abroad. Exports are the only feasible means still available to Mexico for supplementing domestic savings in the short run and for bringing about sufficient economic growth to ensure higher levels of employment and greater prosperity for its citizens in the long run.

The process of structural adjustment triggered by the de la Madrid development plan means a reduction in the unlimited protectionism enjoyed in times past by Mexican industries. A protectionist system that operated through issuance of import licenses will give way to a system based on tariffs. This will provide an incentive for industrial plant efficiency. Currently, 87% of tariff items—almost two-thirds of the total in terms of value—no longer require an import license.

Mexico's move away from protectionism cannot, by itself, improve the Mexican economy. Indeed, this effort will be ineffective if Mexico's share of international markets continues to be affected adversely by protectionist measures applied by its industrialized trading partners. That is where GATT membership comes in.

The decision to join GATT was not made hastily. After consultation with leaders in various sectors of the economy and extensive debate in Mexico's Senate, President de la Madrid instructed his secretary of commerce and industrial development, Hector Hernandez, to begin negotiations with GATT.

The 1979 "Tokyo round" of GATT, at which Mexico was an observer, resulted in several improvements to the agreement that are attractive to Mexico: more favorable treatment and greater participation for developing countries—the "enabling clause"; trade measures adopted for balance-of-payments reasons; safeguards adopted for development reasons; understandings with regard to notifications, settlements of differences and surveillance within GATT.

Mexico decided to apply for full membership after weighing these factors along with the fact that the underlying principles of Mexico's revised trade policy are consistent with GATT's recommendation that tariffs be employed as the sole means of control over imports and that protectionist practices be avoided as much as possible.

While our country's decision was the correct one, entry into GATT, in itself, will not make Mexico a more efficient exporter or increase its exports. New access to markets, however, is expected to spur Mexico's production capacity and to make its plants and products more competitive in both domestic and world markets. To make this possible, it will be necessary to strengthen Mexico's industry through financial and tax incentives and particularly to assist small and medium-size industries in their conversion from the old import-substitution model.

If Mexico joins GATT under the terms of the 1979 protocol, there will be no threat to its sovereignty or its autonomous control of its natural resources—both sensitive matters. As a member with full rights, Mexico will be able to safeguard its trade interests in the next round of GATT negotiations, now in the preparatory stages, in order to counteract the strong protectionist tides now running throughout the world. At the same time, Mexico will become a more attractive place for foreign investment.

A concerted effort by GATT to stem the protectionist tide would give Mexico a significant boost in its effort to implement an economic development strategy designed to respond to the changing needs of changed times.

Mr. Arcaraz is the general director of international negotiations of the Mexican Ministry of Commerce and Industrial Development.

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Christian Science Monitor
February 18, 1986 p. 19

Ensuring Mexico's well-being

MEXICO'S deepening economic crisis requires strong but carefully considered actions both by the Mexican government and the international community, especially the United States. Substantial as is the current financial problem, of greater concern is the prospect that difficulties in the economic sphere could — in the long term — migrate into both the social and political arena.

It is in the world's interest to see that Mexico's problems are dealt with before they can undermine the stability of one of the most important nations in Latin America.

Despite deepening economic problems, Mexico has enormous advantages over many other developing nations: no organized opposition, either by labor or farmers, no guerrilla movement, and an important national resource — oil, albeit one now sinking in price. But as the economic pie contracts, impoverished Mexicans are likely to face extra pressures in their daily existence, and to put additional demands on their government to improve their lives.

With a 2,000-mile common border with the United States, Mexico knows that, in the final analysis, the US will come to its financial aid should Mexico's stability ever seriously be threatened. But mere money alone will not meet Mexican long-term needs; firm action by the Mexican government is also required.

The most immediate cause of Mexico's current plight, of course, is the dramatic decline in the worldwide price of oil; three-quarters of the revenue Mexico receives from foreign exports stems from its oil sales.

Mexico finds itself saddled with a foreign debt of $96 billion, and the likelihood of having insufficient funds with which to make scheduled principal and interest payments on it. More funds, beyond the $4 billion the United States recently agreed to lend, may be required to stave off the prospect of default — such as almost happened in 1982.

One step the United States could take almost immediately, which would benefit both countries, would be a special purchase of Mexican oil in order to fill completely the US strategic oil reserve. The reserve was designed to be used in times of emergency.

Assuming quick action by Washington, the US could provide funds for the oil purchase immediately, with Mexico pumping out the oil on a regular schedule. Such a purchase was made in 1982; it proved a substantial element in the Mexican economic recovery of the subsequent two years.

Beyond that, additional short-term loans may well be necessary, from US or multinational banks. At the same time, some slowing may be required, at least temporarily, in the rate of Mexico's repayment of foreign loans.

Several more-fundamental actions are up to Mexico.

The gargantuan government bureaucracy should be streamlined; inefficient state-owned companies should be sold to private enterprise. Both actions would admittedly, however, be difficult politically, as they run counter to Mexico's national political system, based on patronage. One heavily dominant national party encompasses and keeps contented many different factions, in substantial part through the doling out of jobs in the public or private sector. Without patronage there would be much less popular support.

Yet such actions would boost the confidence in their government among affluent Mexicans and potential foreign investors. A renewal of confidence seems necessary if more funds are to flow into Mexico and less money is to be sent abroad, rather than being invested at home.

In their different spheres, the US, the international financial community, and the Mexican government all have their work cut out for them. But firm action seems necessary to ensure Mexico's future well-being.

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Subsidized Tortillas

Mexico Learns the True Value Of a Peso

By WILLIAM STOCKTON

MEXICO CITY — The price of tortillas in Chihuahua is a small but telling example of the clash of Mexican interest groups as the country struggles to turn its deficit-plagued economy around.

Last month, several hundred tortilla makers closed their neighborhood shops for three days to protest the Government-controlled price they were allowed to charge. Coincidentally, a group of Chihuahua farmers occupied several Government warehouses to protest the low prices they were getting for corn.

The Government purchases corn from farmers at one price, then sells it to a milling company for much less, in effect subsidizing the miller. The mill then sells the corn meal at a controlled price to the tortilla maker, who gets a subsidy in addition. The housewife who buys two pounds of hot tortillas a few minutes before serving the midday meal is getting a hefty subsidy, no matter what her family's economic situation may be.

To satisfy the farmers, the Government came up with a complex scheme for a higher price — in effect, an additional subsidy. The tortilla makers were granted a 250 percent price increase, but lost their subsidy on milled corn. Even so, the tortilla makers insist they are losing money.

The public, in turn, cannot believe the size of the increase in the price of tortillas.

To complicate things, this is an election year for hundreds of mayors and legislators as well as several governors. In some states, but particularly in Chihuahua, the governing Institutional Revolutionary Party, or PRI, will be seriously challenged by the National Action Party. Judging by its long record in power, the PRI is not likely to let the price of tortillas cost it votes, Mexican economists say.

If complaints about tortilla prices grow louder, the Government might step in and order a reduction, working out a further subsidy for the tortilla makers to offset their loss.

"Subsidies like this are what bleeds the budget dry," the Government economist said.

Austerity is becoming a way of life in Mexico. Diplomats, private economists and some officials say the test of the country's ability to control its economy will be that Government's capacity to control spending this year and adhere to the Spartan budget announced in November.

Slashing Deficit Spending

The hope is that last year's deficit spending rate of 8 percent of gross domestic product can be cut in half, and that the inflation rate might then be reduced from 63 percent to 50 percent or lower. Then perhaps interest rates, which are hovering above 60 percent, would be pushed downward as well.

"They certainly understand what has to be done," a diplomat said last week of Mexico's Government, which is well supplied with trained economists. "The question is whether they have the political will to stay the course."

During 56 years of uninterrupted rule, PRI has maintained stability in part by dextrously juggling the diverse demands of a panoply of groups, from rich industrialists and rightists to the poorest farmers and people on the left. The result is a patchwork system in which subsidies sprout within subsidies and competing political groups demand special concessions.

A Government program meant to aid one group may necessitate a subsidy to another, which then affects a third group whose complaints must be dealt with, perhaps through some additional economic support.

"We are an economy riddled with interlocking subsidies and special deals," said a senior Government economist. "Eventually we have to come to a system in which the true cost of a commodity or a service is recognized, and people pay the true cost. Only then can we make rational policy decisions."

A senior Government economic planner said contingency funds had been built into the 1986 budget to deal with special, unexpected political problems.

But if Mexico's economic situation worsens, as seems likely with the steep fall in crude oil prices, demands for special help from all segments of the economy are certain to grow.

"Even without the problem of oil prices, it is going to be very difficult for the Government to hold the line on the budget," a diplomat predicted.

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Wall Street Journal
July 26, 1985

Mexico Hoping Latest Fiscal Measures Will Cure Economy, Boost Public Morale

By Mary Williams Walsh
Staff Reporter of The Wall Street Journal

MEXICO CITY—While Mexico's latest fiscal measures are meant to cure an ailing economy, the government also hopes the moves are strong enough to jolt the public out of its dark mood.

Wednesday, in an effort to rein the nation's runaway economy, the government devalued the peso's controlled rate, cut the federal budget and reduced restrictions on imports. The measures came soon after stiff controls on bank lending, a devaluation of the free-market peso and cuts in oil prices. The moves leave little doubt that Mexico is trying hard to control its economy.

But fiscal changes aren't all that Mexico needs. The government must convince the public that it is in control. Public confidence has sounded such depths in recent weeks that Mexicans have seemed desperate to get their money out of Mexico: Businesses have rushed to close transactions before the next devaluation and workers have waited in serpentine lines to change pesos into dollars.

Shaking the System

"If you want to shake the system, the only way to do it is this way," one Mexican banker said of the latest measures. "The country needed it. There was a feeling that the president wasn't in command."

Government officials concede the austerity measures may have more symbolic value than fiscal importance.

The government devalued the controlled-rate peso about 17% against the U.S. dollar, pushing it to 250 pesos to the dollar from 233 pesos. The controlled-rate peso is the currency used in 80% of Mexican business. And the government said it will cut its current budget, which is equivalent to $51 billion, by $410 million this year.

The government also said it will let the controlled-rate peso float against the dollar, beginning Aug. 5. The government said it will explain next week the float formula, based on the supply and demand for foreign exchange in the controlled market, on Mexico's foreign-exchange reserves and on inflation rates in Mexico and the U.S. In the past, Mexico let the controlled-rate peso lose value against the dollar by a fixed amount each day. Businesses and economists complained the formula was too rigid and encouraged speculation and capital flight.

The U.S. applauded the Mexican government for its measures.

"Experience demonstrates that development and growth will come only to countries with sound domestic policies that stimulate savings, promote trade and attract external resources," said Secretary of State George Shultz, who arrived in Mexico City to discuss economics and trade with Mexican officials. "Mexico has become an example to other countries for its intelligent, disciplined effort to restore its economy."

Mexico's central bank apparently waited to devalue the controlled-rate peso until it felt sure a devaluation wouldn't fuel inflation. New measures to liberalize imports should help prevent inflation, because domestic businesses will now have to compete with foreign prices.

The government said it will strip import restrictions from 36.9% of the goods that come into Mexico. In the past, importers of those goods had to get permits from the government, and the process was widely seen as a source of corruption and bureaucratic entanglements.

In announcing the measures, Mexico's Commerce Secretary Hector Hernandez said protectionism was causing abuses and monopolies. But he tried to assure domestic businesses that they won't lose all protection. "What we're doing is modifying the instruments of protection used," he said. Mexico has tried for months to cut protectionism, but failed under pressure from businesses. Until now, the government had only been able to remove the import-permit requirements from almost 25% of the goods Mexico buys abroad.

Tolerating Policies

Domestic businesses may tolerate the new policies because the government itself is cleaning house.

"When people realize that the government is putting people on the street, that's when they'll look at what they have and thank God they have it," a U.S. banker here said.

The government eliminated the jobs of 15 undersecretaries and many people working for them. It cut spending on such perks as travel and meals by 20%, and cut spending on consultants and other support positions by 30%. It cut funds for publicity and said it would examine expenses for state companies and foreign missions. President Miguel de la Madrid Hustado said he would take a 10% pay cut.

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THE WASHINGTON POST
Tuesday, July 30, 1985

Mexico Adopts Anti-Inflation Austerity Plan

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, July 29—The Mexican government has adopted harsh new austerity measures this summer to brake the overheated economy and prevent inflation from soaring out of control.

The new effort indicates that President Miguel de la Madrid is returning to the tough, anti-inflation policies that characterized the first 18 months of his term in 1983 and early 1984. His government relaxed those policies in the middle of last year and pumped up the economy in an apparent attempt to please voters prior to the midterm nationwide elections July 7.

The Mexican policy shifts mirror the dilemma faced by a half dozen Latin American democracies saddled with runaway inflation and enormous international debts as they try to restore economic solvency without political upheaval.

The measures have dashed hopes that economic growth this year would cut into Mexico's chronic problem of joblessness. More than 40 percent of the work force is believed to be unemployed or underemployed, and it has been three years since the economy created enough jobs to match the increase in population.

Moreover, some of the new measures will have the short-term impact of adding to inflation. For example, a 20 percent devaluation of the peso, increasing the number of pesos needed to buy dollars, will make imported goods more costly.

The Congress of Labor, which represents 34 unions, criticized the new policies and said that, as a form of protest, it would demand larger wage increases than originally planned.

In the long run, however, the policies were expected to restrain inflation by slowing growth, trimming the government's budget deficit and forcing industry to become more competitive, according to Mexican and U.S. government officials and private economists.

The first sign of the new austerity came in June, when the Bank of Mexico sharply tightened monetary policy in a deliberate effort to end a "boomlet" of rapid economic growth. The rate of growth now is expected to fall to zero by the end of the year, private economists and diplomats said.

Since the elections, the government has followed up by devaluing the peso and announcing major cutbacks in the bureaucracy. It also lowered trade barriers that had helped to protect industry against foreign competition.

"We were going a little too fast," Treasury Secretary Jesus Silva Herzog said. "We have had to take some severe actions."

Inflation was expected to drop modestly from last year's rate of 59 percent, whereas it would have risen sharply without the new corrective measures, private economists and diplomats said.

The U.S. government and banks have welcomed the policies as evidence that Mexico is renewing its commitment to austerity. Both Washington and Wall Street watch Mexico's economic performance with particular interest because U.S. banks hold the bulk of this country's $95 billion foreign debt, largest in the Third World after Brazil's.

Mexico has been considered the "good student" among Latin American debtors because of de la Madrid's willingness to fight inflation since he took office in December, 1982. But some U.S. bankers and economists recently aired concern that falling world oil prices would force Mexico to renegotiate some of its debt, or would jeopardize its ability to keep up with its interest payments.

"We consider these steps to be important and significant, and they should have beneficial effects both immediately and in the longer term," Secretary of State George P. Shultz said of the new measures during a visit here late last week for routine talks. Acknowledging that past austerity measures have required "significant sacrifices by the Mexican people," Shultz noted that "we are heartened to see Mexico's determination to continue."

De la Madrid's administration cut inflation from a record high of nearly 100 percent in 1982, to just under 60 percent last year, at a cost of the worst recession in Mexico's modern history.

In the middle of last year, however, the government eased monetary policy and began to raise public spending. The economy surged, and gross domestic product rose by 3.5 percent for all of 1984 instead of by the original target of about 1 percent.

The pickup in the economy carried over into the start of this year, when economic growth accelerated to an average annual rate of about 6 percent for the first six months. However, the speedup raised inflationary pressures, and it encouraged Mexican companies to sell on the growing domestic market rather than to export and bring in much-needed foreign exchange.

"The government reflated in the middle of last year, fundamentally with a view toward the elections. They transferred a lot of their problems to 1985," the chief economist of a leading private research group said.

By this spring, the difficulties caused by the spurt of growth were becoming increasingly evident. The government was backing off from its previously declared goal of lowering inflation to about 40 percent, and the country's trade surplus was reduced by approximately one-half during the first five months of the year. Much of this worsening of the trade balance resulted from the weak oil market, but nonpetroleum exports also fell by 12 percent from the comparable period of 1984.

The combination of resurgent inflation and a deteriorating trade balance led to a run on the peso in May and June. The Bank of Mexico had been carrying out daily devaluations of the peso at an annual rate of 33 percent, but this was not considered adequate, given that inflation was expected to surpass 50 percent.

The government hoped to postpone a devaluation until after the elections, but speculation grew too strong and it had to act. It removed exchange controls on pesos sold to tourists and to businessmen in selected industries, and the Mexican currency plummeted from about 250 pesos per dollar to more than 350 pesos in less than a month.

While tourists enjoyed a boon, most commercial transactions still were governed by the old, "controlled" rate. After the elections, however, this rate also was devalued. De la Madrid signaled that the peso would continue to fall by whatever rate was necessary to preserve the competitiveness of exports.

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Monday, July 22, 1985 The MIAMI HERALD

Business remains wary of Mexico's leaders

By SAM DILLON
Herald Staff Writer

HERMOSILLO, Mexico — Despite President Miguel de la Madrid's three-year effort to mend fences with Mexico's private sector, businessmen remain unenthusiastic, even mistrustful, of government policies and intentions, according to Mexican and foreign analysts.

The recent de facto peso devaluation and the consequences of this month's debilitating slide in oil prices are sure to aggravate tensions, but they had already emerged well before the July 7 mid-term elections.

In a recent poll by the Business Coordinating Council, fully 92 percent of the more than 1,000 Mexico City entrepreneurs questioned said that De la Madrid's economic policies had inspired "little confidence."

Only 4.9 percent said that the policies had inspired "great confidence."

The same mood was evident at a pre-election luncheon sponsored by De la Madrid's Institutional Revolutionary Party in wealthy northern Sonora state, south of Arizona, staged to allow Mexico's diverse businessmen the opportunity to pay homage to the party's gubernatorial candidate.

The slogan of the day was the government's new "joint pact" with Mexican business and the reaffirmation of formulas for faithful government-business cooperation. The candidate, Felix Valdes, promised financing, infrastructure and social peace.

In return, the entrepreneurs vowed to create jobs, in this case, an astonishing 115,000 positions in Sonora state alone during Valdes' six-year term.

Despite the rhetoric of mutual trust, the mood in the hall was somber and humorless, underscoring the continuing tension between government and business. The owner of a Sonora meat-processing plant who attended later told a reporter that he had attended the luncheon only to avoid falling afoul of the ruling party. "They could shut me down in a minute," he said.

The tensions appear to have both economic and political origins.

Government-business relations in Mexico have long been complex. Though officials speak the language of revolutionary nationalism, laced with a quasi-Marxist rhetoric; they preside over a system of state capitalism that has brought generous private-sector profits and extraordinary rates of growth for 40 years.

Under four successive post-war presidencies, ending with that of Gustavo Diaz Ordaz, the rhetorically revolutionary government systematically nourished Mexico's entrepreneurs, building ties of cooperation and trust. But Diaz Ordaz's immediate successors broke that faith with impetuous actions in the final months of their terms.

In 1976, land expropriations and a peso devaluation at the end of the Luis Echeverria presidency shattered the business-government relationship. And six years later, Jose Lopez Portillo widened the split by again devaluing the peso and nationalizing Mexico's private banks.

The private sector is clearly unhappy about the government's muddled management of the country's oil wealth, about its rigid import restrictions and about its raising taxes. But some analysts say that business leaders are also unhappy about such political issues as Mexico's nonaligned Central American policies and its abrasive relations with the United States.

The persistence of the business-government rift three years into De la Madrid's government is a surprise, however. A Harvard-educated economist, De la Madrid put restoration of business confidence at the center of his ruling agenda, vowing to restore stability and order to the economy.

His accomplishments have been clear, although he has been swimming upstream against the dropping world oil prices and high U.S. interest rates that have aggravated

Mexican Leaders' Views on Business

Gustavo Diaz Ordaz (1964-1970)

Known as very pro-business, Diaz Ordaz persuaded government-controlled labor unions to keep wage demands low. His years in office were characterized by a noninflationary economy and sustained growth.

Luis Echeverria Alvarez (1970-1976)

In an effort to establish himself as a leader of the Third World, Echeverria antagonized the business sector. Fiercely anti-transnational, he required all businesses to be majority-owned by Mexican interests. He expropriated thousands of acres of rich farmland in northern Mexico and ordered the first devaluation of the peso since the 1950s

Jose Lopez Portillo (1976-1982)

Lopez Portillo abandoned austerity as the extent of the country's oil resources became known. He encouraged heavy foreign debt, pushing inflation rates above 30 percent annually. When oil prices dropped in early 1981, he refused to cut spending and to devalue the Mexican peso. In 1982, the peso declined by half overnight. He nationalized the private banking system

Miguel de la Madrid Hurtado (1982-)

A government technocrat, De la Madrid cut government spending to restore business confidence. At first, businessmen spoke with fondness of his programs, but are now beginning to question his policies, which have led to strict import controls and higher taxes. Foreign investors also are disappointed with his failure to ease foreign investment laws.

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ed Mexico's debt difficulties.

He sold back to the private sector one-third of the firms seized during the nationalization.

De la Madrid has reversed the severe contraction he inherited: Last year, the economy grew 3.5 percent, and in the first quarter of 1985, it surged by 6.6 percent. He attacked the budget deficit, even recently selling off scores of unprofitable state industries.

Peso inflation has been a more intractable problem, partly, analysts say, because of continuing business uneasiness over government policies. Soaring at 117 percent in April 1983, De la Madrid got inflation down to 55 percent last May.

The de facto devaluation in June — when government banks began selling dollars at the free-market rate, 35 percent higher than the previous official level — dealt a new blow to his anti-inflation efforts.

Fundamentally, however, De la Madrid's has been a pro-business policy.

In northern Nuevo Leon state, the heir to a steel-working fortune ran as an opposition candidate for governor, a move so unusual in Mexican politics that one influential publisher warned of "an emerging break between the government and Mexico's business elite."

The official party's response was the orchestration, nationwide, of meetings similar to the Sonora gathering, aimed to showcase private-sector support. But those gatherings also highlighted the tensions.

The Bank of America's vice president in Mexico, Jose Carral, a financier generally supportive of the government who attended the Sonora meeting, later discussed his own ambivalence in an interview in Mexico City:

"The government has accomplished a lot, since the very dark days of 1982. It has kept order, peace and discipline among the sectors worst affected by the crisis.

"However, I don't think they have realized that they have to increase their efforts to bring back the balance between the private sector and the government.

"The managerial class worries about certain positions taken by the government in Central America, and about the tremendous power of labor unions in the government. And they worry that relations with the United States are not the best."

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3. Trade

US-Mexican Trade Relations

Mexico is the third largest trading partner of the United States following Canada and Japan. In 1985, US exports to Mexico totalled $13.6 billion, and US imports from our southern neighbor reached $19.1 billion. In the last three years, US exports to Mexico increased 50 percent while our imports from that country rose 12 percent. This rapidly expanding commerce reflects our increasing economic interdependence.

The principal categories of US exports to Mexico are machinery and transport equipment ($6.3 billion), manufactured goods ($2.3 billion), chemicals and related products ($1.4 billion) and food and live animals ($916 million). Leading US imports from Mexico are petroleum and related products ($7.8 billion), machinery and transport equipment ($5.6 billion) food and live animals ($1.6 billion) and manufactured goods ($1.2 billion).

US and Mexican officials agree that trade is of major importance in our bilateral relationship and a concerted effort should be made to strengthen our commercial relations. In April 1985, we negotiated a memorandum of understanding on export subsidies and countervailing duties that provides Mexico with the injury test in US countervailing duty investigations in exchange for a Mexican commitment to phase-out export subsidies by the end of 1986. This was a major advance in our bilateral commercial relationship because it assured US companies that they would no longer have to compete against subsidized Mexican exports; and it guaranteed Mexican exporters access to the lucrative US market for their fairly-traded products.

Upon signing the subsidies understanding, both sides agreed that the next step toward strengthening our trade relationship should be the negotiation of a general trade and investment agreement. Such an accord would provide stability and a regular framework for the conduct of our commercial relations. This framework agreement is expected to encompass a wide range of issues, including treatment of foreign investment, establishment of dispute settlement and consultation procedures, reductions in barriers to trade, and general principles to guide our commercial relations. The initial substantive discussions of this bilateral agreement are expected to occur within a few months.

A trade development of paramount importance to Mexico at this time is its decision to seek entry to the General Agreement on Tariffs and Trade (GATT). In November 1985, when President de la Madrid announced Mexico's decision to begin the formal process of accession to the GATT, he cited four main reasons for doing so. (1) GATT membership would help in expanding Mexico's non-petroleum exports; (2) GATT would offer safeguards to protect Mexico's industrial and trade interests;

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(3) Mexico would be able to take advantage of GATT's dispute settlement mechanism; and (4) Mexico, one of the world's 15 largest economies, should participate in the world's principal multilateral trade forum because of the rapid changes occurring in the international trading system.

As one of Mexico's leading trading partners, the United States was designated by the GATT Council to participate in the Working Party that is considering the terms of Mexican accession to the GATT. The first meeting of the Working Party in Geneva was being held at the time this paper was prepared. The United States supports the participation of Mexico in the GATT. We believe that its membership will greatly benefit Mexico's economic progress and development and will strengthen the world trading system.

Inadequate protection in Mexico of intellectual property rights -- patents, trademarks, copyrights -- is an issue of serious concern in our commercial relations. During consultations on this issue with Ministry of Trade and Embassy of Mexico officials in December 1985 and February 1986, we were disappointed when they expressed the opinion that, when the Mexican Congress considers amendments to the Law on Inventions and Trademarks in September 1986, only minor improvements in the protection of patents and trademarks had a chance of being adopted. We hope the Mexican Legislature would consider making not just a few isolated changes in the Law, but more comprehensive amendments along the lines suggested in the paper provided to the Minister of Trade by US Trade Representative Clayton Yeutter in response to the Minister's request. Adoption of the recommended improvements would bring Mexico's treatment of intellectual property into closer conformity with internationally-accepted norms and constitute a significant incentive to foreign investment which would create new employment, transfer technology and earn foreign exchange.

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NOV 26 1985 p. E1,E3

Mexico to Lower Trade Barriers, Join GATT

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, Nov. 25—The Mexican government has made a landmark decision to lower trade barriers by committing itself to accepting the rules of the Western world's main international commercial pact.

President Miguel de la Madrid issued a statement late Sunday saying that Mexico would enter the General Agreement on Tariffs and Trade.

It will take months for Mexico to negotiate terms of its entry, and the country probably will have 10 years or more to bring its customs duties and other trade regulations into line with those of the GATT's other members.

But Mexico will have to gradually lower tariffs that raise the price of imports, and to avoid other measures that discourage international trade. That represents a historic change in the country's long-term economic strategy of relying on relatively high trade barriers to protect domestic companies against foreign competition.

Mexico is the largest Western nation that is not a member of the GATT. The decision to join marks the biggest step yet taken by de la Madrid to achieve his declared goal of opening up Mexico's economy to the outside world and thus forcing it to become more competitive.

"We cannot isolate ourselves in an increasingly interdependent world," de la Madrid said. "To insert the Mexican economy in world trade on efficient and competitive terms has been one of the structural changes that I have been proposing to the nation since my inaugural message on Dec. 1, 1982." The decision was announced when the president's office gave the Mexican press copies of a message in which de la Madrid ordered Commerce and Industrial Promotion Secretary Hector Hernandez to begin negotiations for Mexico's entry.

The move carries considerable political risk for de la Madrid, Mexican and foreign analysts said.

Manufacturers and labor unions here have opposed entry into the GATT on grounds that the nation's economy was too weak to survive

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Mexico to Cut Barriers, Join GATT

MEXICO, From E1

an influx of foreign-made goods. Some companies are likely to go out of business because they cannot compete, and the move is likely to cost thousands of jobs, according to Mexican and foreign trade specialists.

Press reaction this morning was unusually cautious for a country whose editorial writers normally are quick to give uncritical backing to anything that a president does.

"There exists, without doubt, the risk that a too-rapid opening to outside trade currents would result in a weakening of certain portions of the productive apparatus," Mexico's largest newspaper, Excelsior, said in its lead editorial. It said the decision marked "the most important turn in Mexico's foreign trade policy in almost half a century."

On the other hand, the decision is certain to help Mexico in dealings with international banks and the International Monetary Fund over Mexico's $96 billion foreign debt. The international banking community wants the government to make Mexican companies focus more on selling goods abroad to earn foreign exchange to repay the debt.

The U.S. government, which long has favored Mexico's entry into GATT, welcomed the decision in a statement by the embassy here.

"We think it was a good decision. It should facilitate trade between Mexico and other nations of the world, including the United States," embassy spokesman Lee Johnson said. He stressed that the decision "was Mexico's to make," and noted that "the United States welcomes universal participation in the GATT."

Membership in the GATT has been a controversial issue in Mexico for many years. In 1979, the government negotiated terms to join the GATT, but President Jose Lopez Portillo decided against entry at the last minute in 1980.

The 1979 accord with the GATT will serve as the starting point for negotiations in coming months over Mexico's entry, de la Madrid said. He said Mexico would need special safeguards to protect its petroleum and agricultural industries.

Anticipating criticism of his decision, the president noted that the GATT permits special restrictions on imports "if one of its members faces a critical situation."

He argued that Mexico would benefit by joining the GATT because membership would require other countries to guarantee fair treatment for Mexican exports. Membership "can offer Mexico a degree of greater certainty for its export efforts," the president said.

De la Madrid's government already has taken steps to lower trade barriers and thus pave the way for entry into GATT. In July, it dropped the requirement that companies obtain import licenses before buying most goods from abroad. Such licenses generally are barred by GATT, and some critics said at the time that Mexico effectively had joined GATT without formally admitting it.

"GATT is more of a buzzword than anything else," said a Mexican official, who asked to remain anonymous. "It's not a question of getting into the GATT or not getting in. It's a question of how you go about running your economy. It's become more of a political issue than anything else."

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CONGRESSIONAL QUARTERLY
WEEKLY REPORT V. 44
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Reagan Administration Remains Wary:

Some Urge Linkage of Trade, New Aid to Debtor Nations

With many Third World countries sinking further into debt and the United States suffering record trade deficits, an effort is under way in Congress to chip away at both problems by linking them.

But even though many experts see a strong connection between the foreign debt crisis and the U.S. trade posture, some warn that proposed solutions could worsen the situation rather than improve it.

The issue also promises to thrust large commercial banks and multilateral lending agencies into the glare of scrutiny on Capitol Hill, where neither is very popular.

Nonetheless, some lawmakers and other analysts say that new steps are urgently needed to help heavily indebted countries, particularly those in Latin America.

In proposing such help, they also hope to improve the U.S. trade imbalance, which hit $148.5 billion last year. The trade deficit with Third World countries added up to $52.4 billion, more than one-third of the total.

As long as those countries remain saddled with huge debts, they will find it difficult to increase their purchases of U.S. goods and services.

Spotlight Turning On

The twin issues of debt and trade will command considerable attention in Washington, D.C., over the next several weeks. Finance officials from around the globe will gather there the week of April 6 for the spring meetings of the World Bank and the International Monetary Fund (IMF).

The sister organizations, which provide financial assistance to developing countries, will play a leading role in fashioning a response to the current debt problem.

Members of Congress, meanwhile, are crafting a comprehensive trade bill that might include a section dealing with Third World debtor countries and their trading practices. House Democratic leaders plan to bring a trade bill to the floor by mid-May.

By emphasizing the link between the trade deficit and the foreign debt problem, some in Congress hope to boost political support for the World Bank and other international agencies that aid developing countries.

The problem is figuring out an effective way to increase U.S. exports to countries that cannot keep up with their existing debts. In many cases, the countries have tried to manage their debts by aggressively exporting their own products to the United States, thereby earning the dollars they needed to stimulate growth and pay their bills.

Because the debtor nations have also reduced their imports, they have run up trade surpluses with the United States that have contributed to the loss of American jobs.

Scope of the Debt Problem

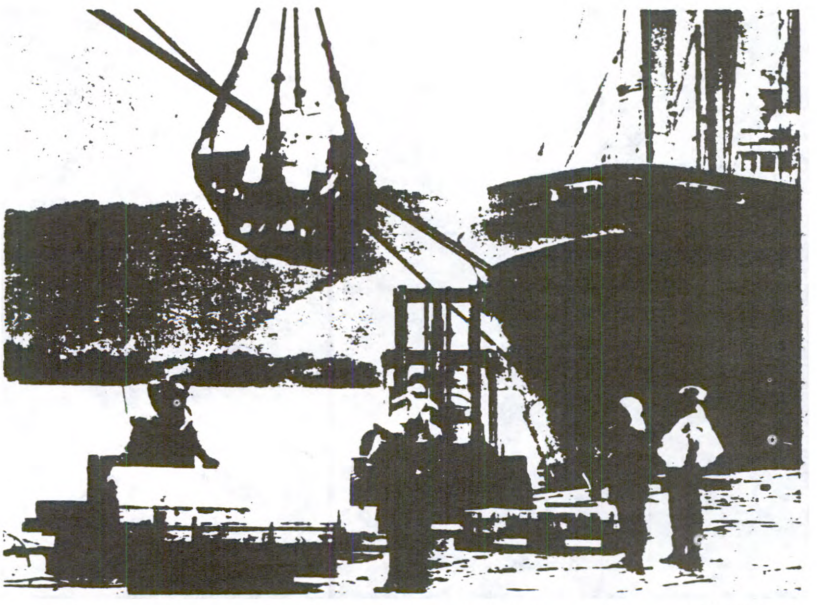
Officials at the World Bank, formally called the International Bank for Reconstruction and Development, predict that the total international debt of 131 poor countries will top $1 trillion in 1986.

Latin American countries, led by Brazil, Mexico and Argentina, have external debts of about $380 billion, with about two-thirds of that amount owed to commercial banks in the United States and elsewhere. *(Chart, p. 749)*

The debt problem, which last reached a crisis stage in 1982, faded somewhat from public view as bankers pumped in more loans and the world economy picked up. But nagging economic sluggishness in many Latin American nations and plunging oil prices have pushed the issue back to the international forefront.

The oil-price decline, from $30 per barrel in November 1985 to about $10 as of April 1, helps countries that must import oil for their energy needs. But it hurts other nations, such as Mexico and Venezuela, that rely heavily on oil exports for income.

Mexico, which owes nearly $100



The United States is on the short end of a trade imbalance with many Third World countries, including Brazil, whose port of Santos is pictured here.

—By Steven Pressman

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billion to international lenders, may need to borrow another $4 billion this year to offset the decline in its oil earnings. The country already has won a second six-month extension on a $950 million loan principal repayment to private banks due last October.

'Collision Course'

Despite the woes of debt-plagued countries, key members of Congress say that budget-cutting pressures will make it difficult to maintain U.S. support for the World Bank and other international lending agencies at current levels — let alone to raise it.

President Reagan's fiscal 1987 budget requested $1.4 billion in spending authority for U.S. contributions to various multilateral banks. The budget proposes another $3.8 billion in "callable capital" used to back up bank loans, but that is not counted as a budget expenditure.

In fiscal 1986, which ends Sept. 30, the United States is contributing $1.2 billion to the multilateral banks, plus $2.9 billion in callable capital.

The IMF is designed to help countries meet balance-of-payments problems with short-term loans that are typically tied to economic austerity measures. The World Bank, on the other hand, provides longer-term loans to boost economic development.

Among the issues to be discussed at the Washington meetings is a general capital increase to bolster World Bank lending beginning in 1988. A. W. Clausen, the World Bank's president, has suggested the possibility of a $40 billion increase drawn from the bank's 149 member countries.

Sen. Bob Kasten, R-Wis., has warned that increased reliance on the World Bank to aid debtor countries is on a "collision course" with the mood in Congress to reduce federal expenditures. Kasten is chairman of the Appropriations Subcommittee on Foreign Operations, which has jurisdiction over multilateral lending agencies.

Trade Conditions

House Democrats, meanwhile, are working on a comprehensive trade bill that may include some provisions aimed at helping Third World countries to pay their debts while increasing their purchases from the United States.

"We are willing to work with developing countries on their debt and growth problems, but our economy must benefit in return," says Rep. Stan Lundine, D-N.Y.

Lundine is the sponsor of a draft measure on which the House Banking Subcommittee on International Development Institutions and Finance, which he chairs, plans to act on April 10. The legislation as currently written endorses increased World Bank lending to debtor countries that agree to liberalize their trading practices. It also calls on other industrialized nations, such as Japan and West Germany, to open their markets to increased Third World and U.S. exports.

In addition, the bill would require the Treasury Department to examine other ways to increase the flow of investment capital to developing countries.

Lundine plans to drop a provision that would have enabled the World Bank to increase its lending capacity without new funds. It would have done that by urging the bank to expand its "gearing ratio," which currently restricts the bank to lending no more than one dollar for each dollar in its loan capital pool.

Some have advocated a new policy allowing the bank to lend 150-200 percent of its available capital.

Commercial banks lend as much as 20 or 30 times the amount of their capital. But critics of a new World Bank lending ratio argue that it would jeopardize the bank's high credit rating, which qualifies it for lower interest rates on the money it borrows to lend to developing countries.

Lundine expects the full Banking Committee to include his bill in a package of other trade-related items it will seek to add to the omnibus trade bill. The Ways and Means Committee has principal responsibility for the trade package, but several other committees are contributing to the bill.

Lundine's legislation is similar to provisions proposed in various trade bills pending in the Senate, including S 1860 and S 2033. These measures are for the most part purely advisory, since Congress cannot dictate World Bank policies.

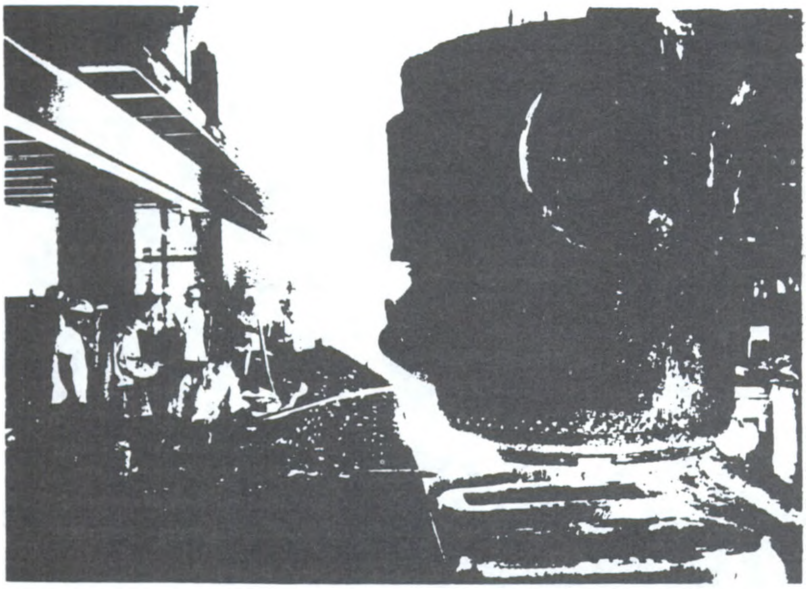
But Congress does have important leverage through its control of U.S. contributions to the World Bank and other lending agencies.

Strengthening the Baker Plan

As a result, Lundine and others want Congress to pass legislation that goes beyond a plan advocated by Treasury Secretary James A. Baker III to help manage international debt.

That plan, unveiled last October, calls for $20 billion in new lending by private banks and $9 billion from international agencies such as the World Bank. But it would condition the new loans on steps by debtor countries to improve their economies, such as controlling inflation, stabilizing currencies and promoting more investment.

"It's a long, drawn-out process with very small pieces that need to be negotiated and fall into place," David



Steel operations in Latin American countries, such as this mill in Brazil, have triggered complaints from U.S. companies about unfair competition.

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C. Mulford, assistant Treasury secretary for international affairs, told Lundine's subcommittee at a March 20 hearing. He described the Baker plan as a "very delicate exercise" that does not require any congressional action.

Skeptics argue that the administration plan will not provide nearly enough money for debtor countries to improve their economies while also keeping up their existing loan payments.

"It's served a useful purpose in that it got people to focus on the problem. But it hasn't solved the problem by a long shot," says Charles E. Schumer, D-N.Y., a member of the House Banking Committee.

Schumer favors a more dramatic solution that includes setting caps on debtor loan payments equivalent to 25 percent of a country's export earnings.

He also thinks that commercial banks ought to write off as much as 30 percent of their loans. Unless such steps are taken, debtor countries will be stymied in their efforts to channel new investment into economic growth rather than funneling it into debt service, he and others believe.

"The major debtors are now so deeply in the hole that they cannot repay the banks without ripping apart their economic, political and social fabric," Schumer wrote in a March 10 column in *The New York Times*.

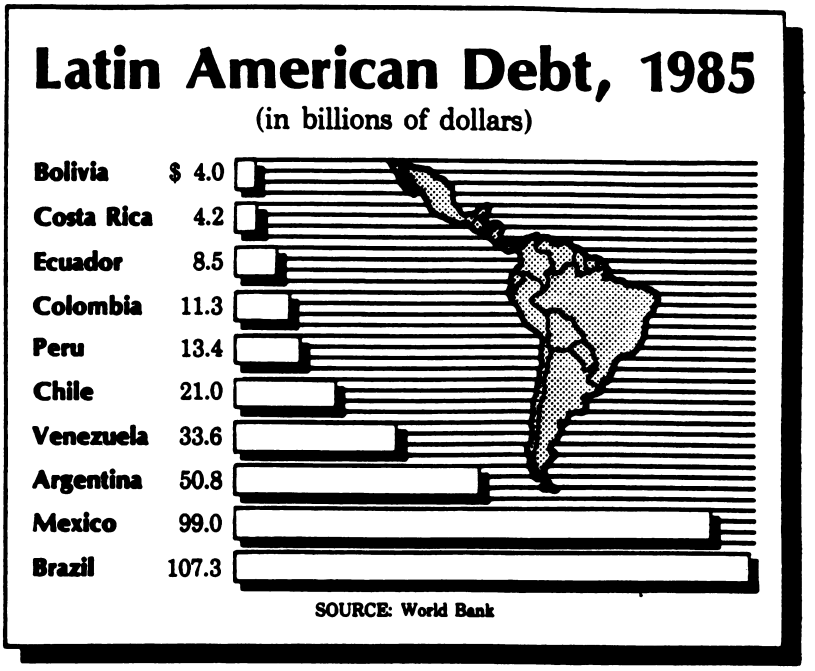
Other members of Congress dismiss Schumer's approach as too drastic. "I don't think radical surgery is required, but neither do I think ... that you can finesse your way through this," says Lundine.

Trade Link Questioned

While many analysts agree with the need for increased World Bank assistance to debtor countries, some question the wisdom of linking that aid to more liberal trading practices by these countries.

They warn such a strategy could backfire by reducing trade surpluses that give Latin American countries much-needed cash to service their debts.

"Attempting to use World Bank lending to rapidly alter the trade policies of debtor countries may lead to ruin for debt management policy," says Stuart K. Tucker, an economist with the Overseas Development Council, a private research group. "Any attempt to rectify the U.S. trade deficit first will only exacerbate the debt crisis."



Given the dimensions of the debt problem, Tucker says it is unrealistic to expect borrowing countries to boost dramatically their imports from the United States and elsewhere.

He also estimates that most of the United States' $18.1 billion trade deficit with Latin America last year can be traced to the debt problem rather than to any unfair trading practices by the borrower nations.

In addition, many of the new loans extended to debtor nations in the past have been devoted to paying interest charges on existing debt. A new round of loans, whether or not linked to trade, will only increase the "mound of unpayable debt," according to Alfred J. Watkins of the Roosevelt Center for American Policy Studies.

"The banks go deeper into the hole and the country goes deeper into debt. And if they can't pay the current debt, how can they pay the larger debt?" asks Watkins.

Still, members of Congress are looking for ways to restore U.S. jobs lost to foreign competitors. And the debtor countries seem to be among the culprits.

The Overseas Development Council estimates that the United States has lost as many as 1.6 million jobs since 1980 — 200,000 of them in 1985 alone — because of declining exports to Third World countries.

With debt-burdened countries lacking the cash to pay for big-ticket items such as aircraft, trucks and heavy machinery, U.S. manufacturing industries have been among the hardest hit.

That leaves the trade effects of the debt problem as a double-edged sword. Some legislators cite them to defend increased aid to international lending agencies. Others are suspicious that loans and other financial assistance to debtor countries may either go to pay off old loans or be used to prop up industries that compete against U.S. companies and workers.

"It's very hard to support foreign aid or contributions to the World Bank given the economic climate in western Pennsylvania in the steel mills and the coal mines," said Arlen Specter, R-Pa., during a March 12 hearing of the Senate Appropriations Subcommittee on Foreign Operations.

Specter was responding to testimony from Baker in favor of his plan to increase lending to debtor countries. Baker, however, said the United States has disapproved of World Bank projects that aid copper and steel operations in Latin American countries, both of which have triggered complaints by U.S. industries.

Complaints Against Debtors

U.S. trade officials note that an increasing number of trade complaints

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p. 27

Mexicans May Lead the Way in Breaking Down Trade Barriers

The Americas

by George W. Grayson

MEXICO CITY—"Even as Uncle Sam shakes his fist at the Japanese over protectionism, he's patting the Mexicans on the back for tumbling import barriers," said former U.S. trade negotiator Stephen Lande.

Mr. Lande was responding to the conclusion of long-debated agreements on pharmaceuticals and subsidies that has warmed the bilateral commercial atmosphere on both sides of the Rio Grande. Even more encouraging is Mexico's keen interest in joining the General Agreement on Tariffs and Trade (GATT), a multilateral arrangement for spurring world commerce through reciprocal tariff reductions.

The continued softness of the oil market has convinced many Mexican leaders of the imperative to promote a diversified array of exports. The past imposition of protective measures has meant that one-time infant industries are now geriatric cases, accustomed to turning robust profits on goods of uneven quality produced behind an awesome wall of import permits and tariffs.

To change this situation, President Miguel de la Madrid has raised the possibility of Mexico's affiliating with the 90-member compact, a decision that he admits will "take months" to make. President de la Madrid's predecessor, Jose Lopez Portillo, spiked a similar initiative in March 1980 when a strange alliance that included nationalist intellectuals and small- and medium-size elements of the business community excoriated GATT as a four-letter word.

Manuel Buendia, a pro-Marxist journalist whose "Private Network" column appeared on the front page of the influential newspaper Excelsior, predicted that entry would spark economic collapse. In a particularly acerbic essay, he compared chief negotiator Hector Hernandez's attempt to sell the country on GATT's advantages to the huckstering of a cemetery-plot salesman. "I don't want you to die," Mr. Buendia mockingly reported the official as saying, "but it is inevitable. Permit me to show you a good place from which to await the Resurrection."

Mr. Hernandez, now commerce secretary, is again championing Mexico's membership. Last month, he told the Mexican Congress that, given the crucial importance of trade to Mexico's recovery, "this country ought to participate in forums that decide, design and discuss world trade policies."

Mr. Buendia, killed last year by an assassin, may be gone, but Heberto Castillo, a strong nationalist and president of the small Mexican Workers Party, has taken up where the columnist left off. "Entry into GATT," he argues, "will close an economic circle thrusting the nation into the hands of giant capitalist nations . . . We will become a Puerto Rico writ large. . . ."

Sharing Mr. Castillo's concern are Fidel Velasquez, the immensely powerful 85-year-old patriarch of the Mexican Labor Federation, and Angel Olivo Solis, president of the Labor Congress. Mr. Olivo Solis warns that the bankruptcy of those firms unable to stand up to the big boys will drive unemployment to a "frightening" level in a country where half the 20-million-member labor force lacks jobs or works only a few weeks each year. Preferring some alternative to joining GATT, Mr. Olivo Solis says: "We can eliminate overprotectionism without destroying our productive plant or becoming a colony."

Doubtless, GATT membership would capsize weak companies, while trimming profits of sturdier corporations ensconced in the protective cocoon. Even worse, affiliation would postpone—if not kill—reform of Mexico's Tammany Hall-style party system that showed in the July 7 gubernatorial and legislative elections an ability to convert vote fraud from an art form into an exact science. Mexico's creaky political structure that dates to the 1920s simply cannot handle two major reforms during the same six-year presidential period.

Still, the benefits of adhering to GATT greatly outweigh the disadvantages, according to the National Chamber of Commerce of Mexico City (Canaco), the National Foreign Trade Council (Conacex), the Monterrey Manufacturing Industry Chamber (Caintra), and other influential groups that are participating in a highly orchestrated pro-membership campaign.

They argue that affiliation would promote competition, upgrade the quality of manufactures, spur export diversification away from petroleum and related products that now generate 69% of the country's foreign exchange, reduce the government's role in an economy in which more than half of the gross domestic product is generated or controlled by the state, stimulate foreign as well as domestic private investment, provide a neutral forum for resolving trade disputes with the U.S., and possibly immunize Mexico against the impact of a bill pending in the U.S. Congress to clamp a special tariff on imports benefiting from subsidized energy or other natural resources.

Privately, one industrialist told me that trade liberalization would restrain the corruption that suffuses every economic sector despite President de la Madrid's highly vaunted, but largely ineffective, "Moral Renovation" program. "Something would have to be done to reduce the size of *mordidas* (or bites) that make too many contracts here look like Swiss cheese and bloat prices," he added.

Entering GATT might also sensitize decision makers in the world's 14th-largest economy to the importance of market forces. Eventually, they could even begin pegging Mexican oil prices to international charges instead of relying on government-fixed rates—a practice that contributed to a decline in crude shipments abroad to 783,000 barrels a day in June, half of the 1.5 million barrel-a-day export target.

Of course, joining GATT would trigger substantial shocks that should be cushioned by liberal entry terms extended over a decade or so, similar to the ground rules fashioned in the late 1970s. Further, the Reagan administration, heartened by trade developments in Mexico, must relentlessly combat protectionist salvos launched against its southern neighbor from special-interest citadels and Capitol Hill. The natural resources subsidies legislation poses the most lethal threat, for Mexicans would perceive its enactment as a blow to any export-driven growth strategy.

Adherence to GATT will not in itself ensure liberalization, as evidenced by veteran affiliates India and Brazil, who slavishly cling to protective measures. Yet, membership augurs well in the context of an economic opening such as that accomplished in midyear when Mr. Hernandez shifted from import permits to tariffs on items under 4,000 duty classifications.

In such an environment, GATT may be the last best hope for Mexico to escape the cul de sac of statism, inefficiency and protectionism that stiffles opportunity and breeds political unrest. As Canaco President Jose Gonzalez Bailo expressed it: "Mexico's destiny is growth"—an epigram that could become reality if President de la Madrid takes action that is as difficult as it is courageous.

Mr. Grayson is John Marshall professor of government at the College of William and Mary. His latest book is "The United States and Mexico: Patterns of Influence" (Praeger, 1984).

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Mexico Dismantles Import Curbs

By WILLIAM A. ORME Jr.
Journal of Commerce Special

MEXICO CITY — Mexico gradually is dismantling some of its import barriers, eliminating import duties and licenses.

In a reform warmly welcomed by foreign trading partners and local export manufacturers, the government two weeks ago abolished prior-permit requirements for 3,604 product categories representing fully 37 percent of Mexico's import bill.

During the previous two years the government already had removed 3,555 categories from the list of products needing import licenses.

The rules change was adopted primarily to provide exporters cheaper and easier access to critical spare parts and raw materials. Mexico's effort to stimulate non-traditional exports has been floundering this year, with foreign sales of manufactures down by more than a fifth from 1984's mark.

Business and diplomatic observers remain skeptical, however, about the government's stated intention to expose protected local industries to competition from foreign products. "We'll believe it when we see it," one Western European analyst said.

In its latest trade liberalization move, the government on Wednesday removed import license requirements in border zones from 333 product categories, among them auto parts, newsprint, agricultural machinery, and industrial chemicals.

But the reform applies only to the frontier districts that already enjoy a modified "free zone" status, and restrictions remain on 575 categories including fertilizers, clothing, and oil products — areas where the government says Mexico's domestic output is "sufficient."

Trade specialists note that the 909 product category import license requirement still in effect in Mexico's interior cover precisely those industries believed to be most vulnerable to foreign competition — among them electronics, pharmaceuticals, petrochemicals, and processed foods.

The government also is cautiously opening the door to imports by selectively relaxing foreign exchange control rules. Under an export-promotion program adopted earlier this year, Mexican exporters now are allowed to use up to 30 percent of their foreign income on the duty-free import of foreign goods.

This week the government further liberalized the duty-free import rules, announcing that this exception to Mexico's currency controls also can be applied to imports bought by suppliers or corporate partners of export firms.

Latin America Weekly Report
13 September 1985

■ **MEXICO / Maquiladoras.** Studies by the Cámara Nacional de la Industria de Transformación indicate that the in-bond plants —*maquiladoras*— will earn US$1.5bn in exports in 1985. Following President De la Madrid's European tour in June, Spain agreed to invest more than US$500m in *maquiladora* enterprises, on a 100% ownership basis.

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4. Foreign Investment (direct and indirect)

US Policy on Foreign Investment

The United States strongly supports the free flow of private direct investment. A central feature of our policy is that direct investment flows should be determined by market forces. Freely functioning markets ensure the most efficient and productive allocation of international investment capital. In this context, the US opposes measures by other governments that interfere with investment flows.

On September 9, 1983, President Reagan released his Administration's Statement on International Investment Policy. The statement recognizes the vital contribution of foreign direct investment flows to economic growth and development and the benefit to home and host country alike. The US welcomes foreign investment in this country and extends to such investment the same nondiscriminatory treatment we seek for US investors abroad.

U.S. policy is to seek adherence to the principles of national and most-favored-national treatment. National treatment means that, consistent with national security interests, foreign investors should be treated no less favorably in like situations than domestic enterprises. Most-favored-nation treatment means that foreign investors from one nation should be accorded treatment no less favorable than the most favorable treatment granted to foreign investors from any other nation.

Protection of investors' property is another condition necessary to maintaining a properly functioning international investment system. Under international law, no investment should be expropriated unless it is done for a public purpose, is accomplished under due process of law, is nondiscriminatory, does not violate any previous contractual arrangements, and is accompanied by prompt, adequate, and effective compensation. Intellectual property also requires protection: international recognition of patents, trademarks, copyrights, and other proprietary rights to technology is necessary to reward innovation and foster investment flows.

Finally, the U.S. Government strongly opposes performance requirements imposed by other governments on foreign investors. All of these requirements interfere with market flows of investment, and impede the efficient allocation of capital. Some, such as local content and export performance requirements, also have trade distorting effects.

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U.S.-Mexico Borderland Industrialization Policies Revisited: The Need for Binational Strategies

By Martin E. Rosen

The recent economic crisis in Mexico has demonstrated again the economic interdependence between this country and the United States. Although the U.S. economy has recovered largely from the recession of 1982, the Southwestern border region still suffers from a lagging economic climate. High unemployment, stagnant business conditions, and a drastic reduction of Mexican business demand from south of the border are facts of life in 1984.

In 1965 the Mexican government, having been confronted with high unemployment and a depressed economy in its northern border region, legislated its Border Industrialization Program, BIP. The statutory measures, which have been amended and expanded over the subsequent years, have proven highly successful and beneficial for Mexico's northern border region and balance of payment. It appears time now for the federal and state governments of the United States to take the initiative to break the impasse of the existing borderland economic legal framework governing socio-economic realities for the 1980's for the mutual benefit of both sides of the border.

In this paper, statistical evidence of Mexico's *maquiladora* program,[1] borderland interactions, and binational legislative measures to promote regional industrialization are sketched. Recently proposed concepts to redirect regional development of the U.S.-Mexico border region are cited to stimulate thought regarding needed legislative changes to promote renewed economic growth.

TWIN-PLANT FACTS

Mexico's "Twin-Plant" industrialization northern border region has been in existence fo two decades now. Industrial parks and assemb have been established and are thriving in variou

TABLE 1

TWIN-PLANT FACTS 1980-1982

	1980	1981
Total Plants in Operation	620	605
Border	551	533
Interior	69	72
Total Employment	123,879	129,449
Administrative	7,168	7,168
Technical	11,433	13,215
Workers	105,282	109,070
Female	81,417	85,305
Male	23,865	23,665
Total Value-added in Mexico Millions of Dollars	771.7	976.3

Location by Cities	Employment (000)
Cd. Juarez	41.8
Matamoros	18.2
Tijuana	18.1
Nogales	11.7
Reynosa/Rio Bravo	8.[illegible]
Mexicali	6.[illegible]
Chihuahua	4.9
Guadalajara	3.9
All Other Cities	17.0
Total	122.5

Principal Sub-Sectors (Dec. 1982) Sector*	Employment (000)	Value (Mil
Electronics	69.2	$458
Textiles	13.8	65
Transport Equipment	13.0	137
All Others	26.5	170.
Total	122.5	$831.

MARTIN E. ROSENFELDT *is Associate Professor of Management at North Texas State University, Dent*

[1]Twin-plants are known as *maquiladoras* in Mexico. The term "twin-plant" will be used here to emphasize the U.S.-Mexican interdependence of these types of industrial establishments. Twin-plants are sometimes called "in-bond" plants because n ported in bond into Mexico have to be re-exported upon of the contract work.

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cities and in the interior of the Mexican Republic. In December, 1982, the Mexican Secretariat of Programming and Budgets reported the following twin-plant statistics [13].

Due to the ensuing economic crisis in Mexico from 1980 to the end of 1982, the number of total plants had decreased from 620 to 588 operations. Since then, however, the twin-plant program as recuperated. In November, 1983, over 600 twin-plants were operating in Mexico with 156,000 Mexican workers employed, representing a 20% increase over 1981 [16]. The *maquiladora* program was made possible when the Mexican government, in reaction to critical unemployment in its northern border region, legislated statutory changes in 1965. As a result, foreign manufacturers, principally from the U.S., are permitted into the Mexican border region to set up and operate *maquiladora* plants to utilize low cost Mexican labor. Manufacturing machinery and raw materials are allowed temporarily into the country provided that the transformed product is exported to the United States, as per the U.S. tariff provisions of articles 806.30 and 807.00 [2].

BORDERLAND POPULATION

The northern border region of Mexico experienced a sudden influx of returning farm workers and their families when the United States terminated the *Bracero* Program in 1965. These workers and the rapidly increasing local borderland population provided a large and untapped labor pool waiting to be exploited. During 1970-1980, the Mexican and U.S. border populations continued to grow at an accelerated pace. Municipalities in the Mexican northern border region, such as Tijuana, Nuevo Laredo, and Reynosa, registered population increases of over 50 percent. During this decade the total population of six of the major municipalities increased from 1.65 to 2.46 million inhabitants, or by 49.2 percent (see Table 2). The extraordinary increase of Mexico's northern borderland population can be explained by the fact that during this period, high unemployment in the interior of the Mexican Republic prompted a larger number of workers to look for job opportunities in the northern part of the country. In particular, Mexico's border industrialization program jobs

TABLE 2

MAJOR-POPULATIONS IN THE MEXICAN BORDER REGION
1970 and 1980 (in thousands)

	1970	1980	Population Change % 1970-1980
Tijuana, B. C. (San Diego)	340.6	639.9	87.9
Mexicali (Calexico)	396.3	516.3	30.3
Juarez, Chih. (El Paso)	424.1	578.4	36.4
Nuevo Laredo (Laredo)	151.3	238.7	57.8
Reynosa (McAllen)	150.8	244.9	62.4
Matamoros (Brownsville)	186.1	242.9	30.5
Total	1649.2	2461.2	49.2

Source: Mexican Census of Population

created by the *maquiladora* program and the hope to be able to cross into the United States led many Mexican workers, sometimes with their families, to venture to the North.

During the same period the United States' Southwestern border experienced a similar accelerated population growth. Four of the six major municipalities along the border region extending from the Pacific coast to the Gulf of Mexico registered major population increases ranging from 33.4 to 54.2 percent [4]. In comparison, the national population growth of the United States during the years 1970-1980 was 11.0 percent. The accelerated population increase in the Southwestern border region can be attributed to two main factors, the "sun belt" phenomenon and increased commercial activities by the regional populations across the U.S.-Mexico border.

The term "sun belt phenomenon" was coined in the 1970's to describe large scale migration of U.S. residents from the Northern states to regions in the Southern and Southwestern states to escape long and harsh winters associated with higher costs of living in favor of more amenable climates and casual styles of living. Considerable influx into these regions by industrial and commercial businesses was encouraged by lower labor costs. Increasingly, manufacturers from Northern states became aware of comparative cost

TABLE 3

MAJOR POPULATIONS IN THE U.S. SOUTHWEST BORDER REGION
1970 and 1980 (in thousands)

SMSA	1970	1980	Population Change % 1970-1980
San Diego	1357.8	1618.5	19.2
Tucson	351.7	485.8	37.9
El Paso	359.3	477.5	32.9
Laredo	72.9	99.1	35.9
McAllen-Pharr, Edinburg	181.5	279.9	54.2
Brownsville, Harlingen San Benito	146.4	208.2	48.3
Total	2463.5	3168.2	28.6

Source: U. S. Department of Commerce, Bureau of Census, Preliminary Report, 1981.

advantages not only by locating their operations and headquarters in the sun belt regions but also because of profit opportunities from the establishment of labor intensive twin-plant operations in the Mexican borderlands.

Commercial activities increased significantly in the Southwestern border region of the United States during this period. From the populated San Diego to the Brownsville SMSA regions, the Gross Domestic Product of most major sectoral commercial activities increased at rates higher than that of the population increase. McAllen SMSA statistics serve as an example of the accelerated growth of Southwestern commercial border activities. With the exception of the traditional sectoral activities of agriculture and mining, from 1971

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to 1979, sectoral activity increases ranged from 47.3 percent in construction to a high of 161.8 percent in manufacturing [15]. The growing regional importance of the sectoral activities in manufacturing, wholesale, retail trade, and finance/banking becomes evident from the changing gross domestic product figures during the period.

TABLE 4

SECTORAL BREAKDOWN OF THE GROSS DOMESTIC PRODUCT OF THE McALLEN SMSA (Millions of Constant 1972 Dollars)

Commercial Sector	Gross Domestic Product 1971	1979	% Change 1971-1979
Agriculture	150.50	108.50	-27.91
Mining	30.28	29.23	- 3.47
Construction	42.49	62.28	46.58
Manufacturing	97.58	255.32	161.76
Wholesale	69.27	135.07	95.00
Retail	139.15	240.15	72.60
Finance/Banking	96.14	180.64	87.90
Service	102.09	155.49	52.31
Government	153.11	258.51	66.23

BORDERLAND INTERACTIONS

Prior to the Recent Crisis

Social and economic interactions between sister municipalities along the U.S.-Mexico border characterize this extensive region of some 2000 miles. Ethnic similarities of the populations along the U.S.-Mexico border from San Diego and Tijuana to the municipalities of Brownsville and Matamoros and cultural heritage encourage trans-border interactions. Commercial and industrial activities influence economic development. However, this region is also divided by the invisible forces of statutory law of two politically independent territories. Mexico's political system is governed by a highly centralized federation of states, while the United States' union preserves decentralized interdependence between its states. Legislative acts and regulations from Mexico City or Washington prescribe the economic interactions of the border populations.

Since the early 1960's, the Mexican federal government has become aware of its isolated northern border region and its fast increasing population. To alleviate high regional unemployment, a number of border development programs have been instituted, particularly the Border Industrialization Program. Since its signing into law, the BIP has shaped national industrialization efforts in the Mexican northern border region. After a hesitant start in the late 1960's and early 1970's, the program's favorable economic effects are becoming increasingly noticeable to U.S. business interests. Access to low labor costs through assembly plant operations enables U.S. firms to compete effectively against low cost products imported into the U.S. market from the Far East. Increasingly, U.S. manufacturers have found it advantageous to make use of the provisions governing the BIP and have set up twin-plants along the northern Mexican border. Mexican border industrialization is taking place with economic benefits for both sides of the border.

Economic interaction between Matamoras and Brownsville constitutes such an example. Brownsville had long been characterized by poverty and little growth potential. However, during the last decade it experienced accelerated growth, increase of population, and rapid industrialization [11]. Between 1967 and 1978, approximately 8,000 manufacturing and 5,600 non-manufacturing jobs were generated [8]. The growth of Brownsville can be attributed to its proximity to Matamoros on the Mexican side of the border, a city of 242,900 residents in 1980. As a result of the Border Industrialization Program, in 1970 thirty-four twin-plants had been established in Matamoros, the number rising to fifty operations in 1980. During the same period thirty twin-plants were established in Brownsville.

Brownsville's economic growth was spurred on through the Mexican BIP in other ways such as cross-border commercial trading, banking, real estate interests, and construction activities. These economic interactions, together with the effects accruing from the "Winter Texans" moving into the Lower Rio Grande Valley sun belt, fueled Brownsville's economic activities. Resulting trade and commercial activities continued to create new jobs in this U.S. border city. This region, as well as other municipalities along both sides of the border, experienced similar economic growth wherever twin-plant operations were established. In 1982, however, Mexico suffered a severe economic crisis with major devaluations of its currency and exchange restrictions, which has affected economic interaction and growth substantially. Although the *maquiladora* program south of the border has recuperated significantly, the U.S. border economy remains depressed, with no end in sight.

Changing Border Environment

After nearly 20 years of almost uninterrupted economic growth, Mexico's economy came to a halt during this financial crisis. Financial overextension by the private and public sectors during the last decade and the accumulation of the second highest foreign debt of any nation ended Mexico's biggest boom in recent history.

Reverberations of the impending economic troubles could be noticed when Mexico's currency was devalued in 1976. From 1954 to that date, currency stability had characterized its developing economy. New oil discoveries in the late 1970's spawned one of the highest rates of economic growth in the world. However, a worldwide recession, together with diminishing oil markets and falling oil prices in 1980, precipitated Mexico's recent severe crisis [5].

In 1982, the Mexican currency was devalued three

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times and has been sliding in fractional devaluations ever since. Massive capital flight of fortunes that had been accumulated during the boom years and savings of small investors, rampant inflation, unemployment, and the lack of foreign currency have taken a heavy toll on the former buoyant economy. U.S. currency has become so expensive to the average Mexican resident that cross-border trade has slowed to a trickle. Commercial activities on the U.S. side of the border have been reduced drastically. Border Business Indicators for the period of December 1981 to November 1982 demonstrate the severe impact on trade across the border as a result of the deepening Mexican crisis [12].

TABLE 5

QUARTERLY GROSS SALES FOR THE TEXAS BORDER REGION 1982 (in millions)

	3rd Quarter Sales	Percent Changes from 1981
Brownsville*	$ 497.6	-16.1
El Paso	1,983.8	- 9.2
Laredo	238.8	-41.8
McAllen**	583.6	-21.5

* including Harlingen and San Benito
** including Pharr and Edinburg

Source: Texas State Comptroller of Public Accounts Sales and the Use Tax Analysis by SMSA

As a result of the interrupted normal interactions among the population concentrations on both sides of the border, U.S. border employment has also been drastically affected. As Mexican customers, almost over night, ceased to do business and trade with the U.S. border region, merchants lost their Mexican market share of customers, which at times had represented over fifty percent of their total business volume. Foreclosures and bankruptcies became common occurrences during this period. At the same time, resulting price differentials, favorable for the U.S. customer because of the Peso devaluations, led many U.S. border residents to shop on the Mexican side of the border, reducing even further trade in the U.S. borderlands.

Unemployment in the Texas border cities rose quickly to crisis levels; the same scenario could be observed along the extent of the U.S.-Mexican border region. Selected unemployment rates of major Texas border municipalities demonstrate the depth of the crisis in 1982.

Economic conditions in the U.S. border cities and municipalities so far have not improved significantly. The interactions between both border regions cited have shown the sensitive interrelationships of the border economies throughout boom and crisis times. Economic developments, whether they are spurred by market forces or political or legislative developments in either country, influence significantly the economic well being of the residents of both sides of the border. Thus far, no economic improvement can be foreseen for the U.S. border region in the near future.

TABLE 6

UNEMPLOYMENT RATES (%) IN SELECTED BORDER CITIES, TEXAS AND U.S. JANUARY-DECEMBER 1982

Month	El Paso	Laredo	McAllen	Texas	U. S.
January	9.2	12.1	13.2	5.9	9.1
February	10.0	14.5	14.2	6.0	9.6
March	9.6	14.0	12.0	5.7	9.5
April	10.6	14.1	11.1	5.9	9.2
May	10.6	14.1	11.1	6.3	9.1
June	12.5	16.3	13.1	7.7	9.8
July	12.0	15.5	14.7	7.3	9.8
August	11.1	15.6	15.1	7.0	9.6
September	12.5	23.6	14.0	8.0	9.7
October	11.9	23.0	17.6	7.6	9.9
November	11.7	24.6	17.3	7.6	10.6
December	11.6	25.3	17.6	7.6	10.5

Source: Texas Employment Commission

BORDERLANDS LEGISLATION

Overview

Borderland economies are sensitive to legislative acts by the neighboring country because of their regional, economic, and social interactions. Legislative enactments affect not only a particular region but also national interests across the border. The *laissez faire* attitude of the United States toward shaping industrial development in the U.S. borderland regions has been characterized by an absence of legislative efforts that might assist private business activities. In contrast, Mexico has promoted industrial development to alleviate regional unemployment through various border development programs [7]. Current literature on borderland industrialization has focused on the BIP, in particular on the *maquiladora* industries. While initially U.S. manufacturers sought to abate manufacturing costs by establishing labor intensive twin-plants, recently foreign manufacturers from Europe and Asia also have become interested in setting up assembly plants in the Mexican border region. Likewise, the Mexican private sector interest in *maquiladoras* serving the U.S. market is increasing.

Although the current Mexican government is actively promoting border industrialization through twin-plant establishment, attitudes are ambivalent. The Mexican National Development Plan 1983-1988 explicitly details the government's position and future objectives with respect to the role of twin-plants in industrial development and national interests.

Mexico's Industrialization Strategies

Since the inception of the new Mexican government in December, 1982, the economy has stabilized. Commercial activities remain, however, depressed, mainly because of high foreign debt payments. Heavy interest and principal payments deplete the national economy of foreign currency. Importations have been curtailed acutely. The lack of currency exchange and reduced regional economic activities accentuate the impoverishment of the populations on both sides of the border.

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requiring them to look to their respective federal and state governments for assistance.

In May, 1983, the long-awaited National Development Plan 1983-1988 was signed into law and published by the Mexican Department of Programming and Budgets. National planning strategies, objectives, and propositions for the six year term of the current government are detailed. The *National Plan* is designed as a flexible policy framework to be followed by the national, state, and local governmental institutions. Recognition is given to industrial development as being increasingly important for the evolution of the Mexican economy [10]. National strategies are to be reoriented toward modernization of the industrial sector to develop Mexico's internal market and to achieve (industrial) integration and external competitiveness. Increased industrial productivity and economies of scale are envisioned to give impetus to the export market, and the government will promote the use of national technologies [7, pp. 28-29, 316, 319, 322, 324-326, 328]. Foreign investment policy statements emphasize national strategies to:

- ensure that foreign capital will not acquire efficient (Mexican) enterprises or have a dominant position in a particular industry,
- ensure that foreign investment will contribute to the balance of payments and technological development, and
- substitute for imports and generate exports.

In order to capitalize on the export potential of the nothern borderlands, distribution channels will be set up to incorporate these regions into the national market and to export products not essential for the internal market. Higher manufacturing integration for national manufacturing industries are being promoted in the border regions. Controls may be established on temporarily imported capital to promote national production.

Goods produced with foreign materials may be distributed in the national market provided that the industries submit manufacturing integration programs to develop an industrial base in the border regions. Importance is given to national priorities to integrate twin-plants increasingly into the national industrialization, with the objectives of ensuring national permanence and the diffusion and adaptation of their technologies to national requirements.

Mexico's industrialization, in particular that of its northern border region, over the past two decades has been remarkably consistent and successful. Now, national integration of foreign twin-plant industries appears to be one of the predominant national strategies and objectives for industrialization of the country. Opening up the Mexican market for national *maquiladoras* will provide as yet unexplored business opportunities for the international business entrepreneur.

United States Borderland Industrialization Programs

The U.S., with its decentralized government structure, to date does not have a unified borderland industrialization strategy comparable to that of Mexico's border development programs, such as PRONAF[2] and the previously discussed BIP. Up to the mid 1970's, the Southwestern border region did not receive special legislative attention by U.S. lawmakers. Economic development issues were considered the responsibility and jurisdiction of the four U.S. border states — Texas, Arizona, New Mexico, and California.

In 1975, as a result of a petition by the governors of the four border states, the federal government established the Southwest Border Regional Commission. Recognition was given to the region as a special interest area with unique social and economic development issues. The commission, however, was ineffectual and was terminated in 1981 [3]. Even before the 1982 Mexican economic crisis, legislators of the states bordering on Mexico, recognizing the economic uniqueness of the region, attempted to deal with its problems by setting up regional state agencies. An example is the following legislative initiative by the state of Texas: in 1979 the governor of Texas created the "Governor's Office of Regional Development" by combining the already existing Greater South Texas Cultural Basic Commission and the Southwest Border Regional Commission. The intent of the merger was to provide for more efficient delivery of state programs and technical assistance to South Texas and the Texas border region area. The objectives were to improve the regional quality of life and economic, particularly industrial, development through issuance of industrial revenue bonds to attract new industries and thereby create new jobs [6].

Recognition of the special regional, economic position of the U.S.-Mexico borderland region was also given by the chief legislators of the adjoining states on both sides of the border. In October, 1981, the governors of the ten adjoining border states met for their Second International Reunion of the U.S.-Mexican Border Governors in El Paso, Texas. During the binational meeting, position papers were discussed by focus groups on Agriculture, Environment, Cultural Exchange, Twin-plants, Energy, Commerce, and Tourism. The committees' tasks were to make recommendations that represented the opinions of legislators of the ten border states.

[2] *Programa Nacional Fronterizo* (National Border Program), established in 1961 to promote economic development in Mexico's border regions.

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The Twin-Plants and Industrial Development Committee set as its primary goal the creation of a binational entity in the border states for industrial promotion and development of the twin-plant industry in the border region. This binational entity would be formed by representatives of the state governors to carry out the following activities, among others:

A. Attract to the border states those manufacturers currently exporting to the United States from other offshore locations with the goal of stimulating greater industrial development and employment in the border regions.

B. Encourage development of vocational training programs.

C. Undertake research and analysis of further economic development needs as well as of the financial and human resources currently available in the region.

D. Consider the creation of a Regional Development Bank with funds from both countries to develop the financial infrastructure that both sides of the border need.

E. Encourage each border state entity to communicate with the respective federal governments regarding solution of common problems in the border area [3].

Following the 1982 Mexican economic crisis, the four governors of the U.S. border states petitioned the U.S. government for federal assistance to alleviate the unprecedented regional recessions resulting from repercussions from across the border. State and federal economic development and assistance programs have been insufficient to absorb the economic shock waves from Mexico. In August, 1983, under the auspices of the office of the President of the United States, the Inter-Agency Action Group was formed to channel existing federal programs toward the Southwestern border region. Federal assistance programs, such as the Small Business Administration Economic Revitalization Program (SBER), Urban Development Action Grants (UDAG), Small Business Administration Peso Pact Loans, and others are expected to help the private sector in the borderlands to adjust to and to overcome the regional crisis. The Inter-Agency Action Group has yet to show that it is more than just a political entity. Rather, it should also serve its designed purpose to effectively aid in economic rehabilitations of the borderlands.

In summary, thus far the government does not possess a comprehensive legislative framework to address the economic problems of the Southwestern border region of the United States.

CHANGING PANORAMA

Scenario

Increased awareness of profit potentials by locating twin-plants outside of the national borders will continue to encourage U.S. manufacturers to take advantage of Mexico's border development programs. These profit potentials are substantial. Foreign firms find it increasingly advantageous to ship labor intensive, unskilled assembly segments of their production operations south of the U.S. border. The per employee annual saving when a job is transferred from the United States to a Mexican twin-plant is probably in the $13,000-$15,000 range or even higher [13].

Employment in the *maquiladora* industry is rising rapidly. During 1983 the increase was expected to be over twenty percent. Most of the growth was expected to be in Ciudad Juarez and western border cities. Non-U.S. owned plants are also on the rise, in particular Japanese and European operations. About 20 percent of the *maquiladoras* are Mexican owned plants working on contract for U.S. firms. The former "twin-plant" concept presuming U.S. ownership of the plant operations is changing. This appears to conform to Mexican national industrialization policies.

The basic intent of Mexican legislation in the establishment of *maquiladora*, i.e., labor contract plants, was published in the *Diario Oficial* of October 27, 1977. The official definition of a *maquiladora* states that ". . . it is an economic unit of industrial production which engages in productive activities based on temporary importations, which permit exportations" [14]. The term "twin-plant" has no legal significance in Mexico. It must be considered an informal connotation for plants located in Mexico working under contractual agreement for another (presumably U.S.) party. *Maquiladoras* and twin-plants, therefore, do not mean the same even though the terms are frequently used synonymously.

Mexican attitudes toward twin-plants are ambiguous. The plants are needed because they create jobs and earn badly needed foreign exchange. Critics of the twin-plants contend that they are not conducive to the training of local industrial labor forces. Furthermore, they do not tend to increase national technology, as the production processes employed are mainly labor intensive, using mostly unskilled workers.

From the U.S. point of view also, twin-plants have their disadvantages. The AFL-CIO is actively opposed to the exporting of jobs and lobbies for the repeal of the U.S. Tariff Schedule, items 806.30 and 807.00, that regulate the twin-plants. If they were to succeed, this would mean termination of the *maquiladora* program to the U.S. market, at least in its present form.

The twin-plant concept has aspects that raise doubts as to its lasting value for the U.S. border economy. The notion that this region would benefit by supposedly

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capital intensive manufacturing operations located in the U.S. border region has only partially become true. Statistics of twin plant establishments in Ciudad Juarez and El Paso in 1983 point to a significantly higher number of twin-plant operations and related employment taking place on the Mexican side of the border, as shown in Table 7.

TABLE 7

COMPARATIVE ANALYSIS OF TWIN-PLANT ESTABLISHMENTS AND EMPLOYMENT IN 1983 FOR CIUDAD JUAREZ AND EL PASO

Employment per Establishment	Ciudad Juarez No. of Establishments	El Paso No. of Establishments
1-10	3	11
11-25	11	9
26-50	7	6
51-100	17	4
101-200	26	7
201-300	17	5
301-400	10	1
401-500	8	-
501-750	7	-
751-1000	5	-
1001-2500	6	-
2501-5000	1	-
Information not available	3	-
Total	115	43

Source: American Chamber of Commerce in Mexico 1983

Of the forty-three twin-plant operations located in the El Paso borderland, two operations were offices only, and eleven were warehouses that are used to handle materials for twin-plant operations in Ciudad Juarez.[3]

During the prolonged period of stability of the Mexican peso and U.S. dollar excahnge from 1954-1976 and 1977-1981, the two border regions developed an apparent harmony between their commercial legal frameworks, incluiding their respective tariff structures. The Mexico border region provided low cost labor for the assembly and partial fabrication of products to be merchandised in the U.S. economy. Mexican legislative objectives of reduction of unemployment and industrialization were being achieved. The U.S. border region prospered by servicing the twin-plants south of the border and benefited from the increased purchasing power of Mexican residents.

Economic repercussions after the currency devaluations in 1982 have shown that Mexico's border region, as a part of the sovereign federation of Mexican states, is subjected not only to its jurisdiction but also benefits or suffers from the consequences of changing fortunes of the whole of the Mexican national economy.

Need for Binational Development Strategies

Mexico's borderland industrialization strategies, in particular those addressing *maquiladoras* as stipulated in the National Development Plan, leave no doubt as to their long-range objectives. The United States, on the other hand, is only now beginning to recognize the special regional position of the U.S.-Mexico borderlands. *Laissez faire* policies on one side and centralized industrialization strategies on the other are not conducive to to achieving regional stability. Joint regional development strategies are needed. Notwithstanding declared objectives in the *National Plan*, Mexico will continue to accept *maquiladora* petitions. U.S. businesses will continue to seek comparative advantages of low cost labor in Mexico. With the unfavorable peso/U.S. dollar currency exchange, the U.S. border region will continue to be deprived of its Mexican cross border market. If the situation persists for any length of time (and no end to the current economic crisis is foreseen at present), the border economy will continue to stagnate. A poverty belt will develop along the U.S. border region that, together with the immigration problem of undocumented labor, may have explosive social and economic consequences.

New solutions must be found to provide the U.S. borderland population of more than three million people with economic livelihoods. One suggested solution would be to legislate incentives that will entice manufacturers to locate their plant operations in the Southewestern border region of the United States instead of inside the Mexican border region. This means that Mexican labor would have to commute across the border to plants located within U.S. jurisdiction. Private business initiatives for industrial development exist already in the more important population centers along the U.S. border [9]. So far, however, the statutory framework and legislative groundwork has yet to be laid to permit this region to use its own comparative economic advantages.

Proposition

National legislative measures shape the economic framework of the U.S.-Mexico border region. During the past two decades, Mexican legislation has aided its borderland industrialization. U.S. legislative efforts, on the other hand, have been largely absent. New borderland realities emphasize the need for U.S. lawnmakers to scrutinize existing problems and establish a legal framework to aid U.S.-Mexican economic collaboration toward joint industrialization of their mutual border regions.

Untapped opportunities to utilize the comparative advantages, Mexican low labor costs, and U.S. technology exist to serve both the border regions and national markets. The regions adjoining the border on both sides possess similar, large labor pools. Mexican wages, however, represent only a fraction of the legislated minimum wages in the United States. If free market

[3]This statistic is based on data of El Paso-Juarez border related manufacturing operations by the American Chamber of Commerce of Mexico, 1983.

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forces were allowed to find their own equilibrium, real wages undoubtedly would be less, taking into consideration supply and demand of available borderland labor. U.S. border cities could be granted a special customs status, such as those which have been installed in other parts of the world. Business and manufacturing activities could thus be conducted free from government restrictions. The increased competitiveness of less costly U.S. border region labor would entice firms to set up their manufacturing operations on U.S. territory, rather than to establish foreign based subsidiaries. What is needed is a legal framework to allow U.S. border populations to use their unique position as an industrial belt to serve both the U.S. and the Mexican national markets.

Baerresen describes one such viable legal framework in his proposition for free ports for Texas, which permit the establishment of special industrial zones [1]. In a free port, total exemption of government control over commodities exists. This concept can be applied to permit the establishment of industrial zones where U.S. borderland and Mexican labor can be contracted at lower than nationally legislated labor rates. Mexican labor would be employed to the extent that jobs would be available after they had been offered to U.S. border residents. Entering of Mexican labor into the free port zones would be controlled through work permits allowing them to commute across the border between their homes and their work places on the U.S. side. The "preferential" rates probably would have to be negotiated between regional U.S. and Mexican labor unions under governmental auspices. Manufacturers would have the incentive of establishing regional plants in the U.S. borderlands under home jurisdiction, rather than having to adapt to a foreign legal environment. Unlike twin-plants located in Mexico, these establishments would be subject to the same strategic planning considerations as other national plants. However, they would benefit from lower labor cost advantages. Even though the proposition could be, upon superficial consideration, construed as being disadvantageous to Mexico, this country also stands to benefit from the free port proposal. Through promotion of joint Mexican-U.S. ventures in the Mexico border regions, true twin-plants could be established. Criticism by some Mexican labor leaders of *maquiladoras* as to alleged low cost labor exploitation and insufficient technology transfer to promote substantial industrial development would become meaningless.

"True" twin-plant operations, set up in free port zones in the U.S. border region and in the Mexican borderland, would be established with labor or capital intensive manufacturing technologies consistent with production economies and domestic content requirements for products made in Mexico and U.S. customs duty requirements for imported products and/or labor. These operations would form structural subsidiaries and supply both the U.S. and Mexican markets. They would thus differ from the currently accepted twin-plant concept.

In summary, to establish a common industrial zone in the U.S.-Mexico border region to supply both national markets, concerted new legislative efforts are needed that recognize through statutory laws the regional reality of the social and economic interactions of both borderland populations.

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APR 2 0 1986
p. F1,F4

Mexican Border Towns Boom

$1.30-an-Hour Wages Attract U.S. Companies

By Stuart Auerbach
Washington Post Staff Writer

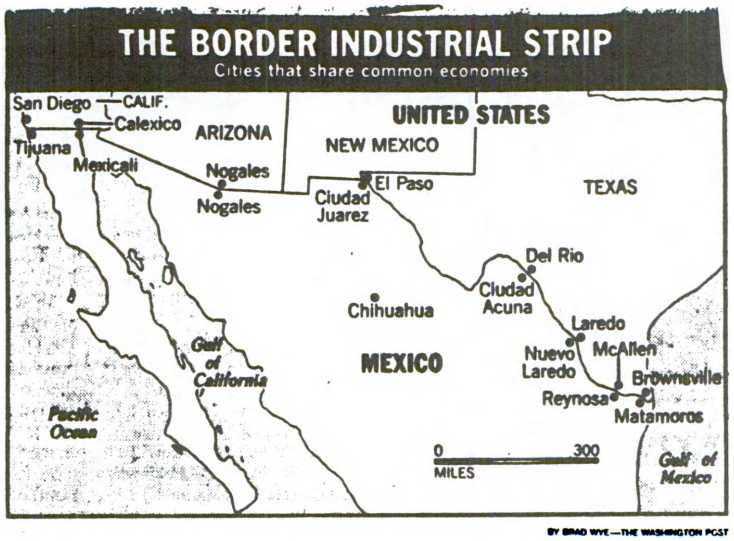
CIUDAD JUAREZ, Mexico—In a country where unemployment is rife, this city just over the Rio Grande River from El Paso suffers from a labor shortage.

The employment boom is due to an explosion in the number of assembly plants set up here by American companies taking advantage of Mexico's $1.30-an-hour wage rates and low energy costs to make products to send back to the United States. About three-fourths of Juarez' work force of 266,000 are either directly or indirectly supported by more than 180 *maquiladora* plants in this city, the fourth largest in Mexico. (The name comes from the Spanish word *maquila*, which is the amount of grain paid to the miller to grind the corn.)

The *maquiladora* program allows American companies to own plants on this side of the border without Mexican partners, as required elsewhere in the country; to equip them with American machinery, and to bring in supplies from the United States to be worked on here. Both the supplies and equipment stay here "in bond" under Mexico's protectionist import restrictions, and only limited amounts can be sold in the Mexican market.

The plants specialize in labor-intensive assembly processes for products that largely are returned to the United States, and U.S. customs charges duty only on the val-

See BORDER, F4, Col. 1



BY BRAD WYE—THE WASHINGTON POST

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Mexican Border Towns Attract U.S. Companies

BORDER, From F1

ue that was added by the Mexican operation.

Thus, General Motors sends its wiring harnesses—the strands of wires that connect a car's electrical system to the battery—to be assembled by Mexican women in factories here. These assembled strands of wires and plugs are then shipped north to GM factories in Michigan.

The *maquiladora* plants employ more than 80,000 Mexicans, twice as many as four years ago, with a payroll of more than $160 million. As many as 130,000 other Mexicans work here to support the manufacturing operations, which produced an estimated $10 billion in goods that moved across the river from Juarez to El Paso last year.

The *maquiladoras*, which are strung along Mexico's 2,000-mile border with the United States, are seen by the government of President Miguel de la Madrid as the salvation for this country's sagging economy, which has been buffeted by high debt and plunging oil prices. Besides jobs, the plants provide an influx of American technology and capital as well as help Mexicans seeking a better life who otherwise would join the stream of illegal immigrants coming to the United States.

The border industries have become Mexico's second-largest source of foreign exchange, far behind oil but surpassing tourism for the first time last year, when they brought $1.8 billion in hard currency into the country.

The Mexicans see the border strip as a potential rival to the high-growth states of Southeast Asia, with U.S. companies locating there to produce goods both for the American market and other countries. In a recent trip to Mexico, Sen. Lloyd Bentsen (D-Tex.) praised a change in attitude toward foreign investment and trade on the part of the Mexican government and applauded this new spirit of cooperation as a benefit to both countries.

"It doesn't make any sense for U.S. companies to be going to Taiwan or to South Korea," he told reporters in his home town of McAllen, a border city where the International Trade Commission held the first of a series of hearings earlier this month on the trade impact on the economies on both sides of the Rio Grande.

"The wage scale on the Mexican side is competitive with that," Bentsen said. "We have an infrastructure here that complements the other side."

That's good for America, he said, because "whatever is done that helps one side, spills over to the other side" of the border, which, north of the Rio Grande, is a strip that lags in development and suffers from some of the highest unemployment rates in the United States.

Among the biggest U.S. beneficiaries is El Paso, one of the fastest-growing cities in Texas, which is located just across the 50-foot-wide river from here. Cecilia M. Lang of the First City National Bank of El Paso estimated that the Mexican plants generated $300 million for the El Paso economy last year and said that amount would triple during the next 15 years. Jonathan W. Rogers, El Paso's mayor, added that the 80,000 manufacturing workers in Juarez directly support 5,000 mostly white-collar jobs in his city.

"With 24,000 people out of work, I am concerned about jobs for El Paso," he said at an ITC hearing.

The major opposition to the *maquiladoras* comes from organized labor, which sees them as a management tool for exporting jobs overseas.

"By moving across the border to take advantage of low-wage rates, companies left thousands of Americans unemployed," said Antonio Sanchez, manager of the El Paso joint board of the Amalgamated Clothing and Textile Workers Union. "I wonder if that is good for the country and for the economy, or only for the companies who profit from it."

But American supporters of the *maquiladora* concept counter that the U.S. jobs would have gone offshore anyway, probably to the Far East. "If they come to Mexico instead of the Far East, at least there will be some jobs in the United States. So it's not a total loss," said Al Cisneros, general manager of the port of Brownsville, the Texas city more than 800 miles to the east of El Paso.

For every 10 *maquiladora* jobs in Mexico, two are created in the United States, said J. Michael Patrick, director of the Center for Entrepreneurship at Pan American University in Edinburg, Tex. He estimated that Texas gains an annual payroll of at least $53.6 million as a result of the plants in Mexico, but other jobs spill far north from the border to plants that manufacture capital equipment and other made-in-America supplies for the *maquiladoras*.

William L. Mitchell, a U.S. promotor of *maquiladoras* here, estimated that 108,575 U.S. workers from 5,714 companies in 44 states supported factories located here.

The *maquiladora* program started 20 years ago, but exploded in the past few years with the devaluation of the peso, which further lowered labor costs to American companies operating in Mexico.

Trico Products Corp. just moved a windshield-wiper assembly operation to Matamoras, Mexico, across from Brownsville, because of the wage differential—$15 an hour in Buffalo, N.Y., versus the $1.30 here.

Johnson & Johnson sews surgical gowns here, but sterilizes them in El Paso. And RCA assembles color television sets in Mexican factories from tubes and chassis shipped from the United States.

"The Mexican-American border is a new Ruhr waiting to be developed," said Cisneros, a prime booster. He cites Mexican labor rates, which he says are lower than those in the "Four Tigers" of Southeast Asia—South Korea, Hong Kong, Taiwan and Singapore—and $5.20-an-hour wage rates on the American side of the Rio Grande, which is far lower than the national average of $13.09.

"U.S. companies don't have to go across the Pacific," said Cisneros. "They just have to go across the Rio Grande.

"We feel the border industries program is going to create jobs on both sides of the border. Together we are compatible, we help each other. Alone, we can't stand up," he added.

The border strip between Texas and Mexico, from the twin cities of El Paso and Juarez on the west to Brownsville and Matamores near the Gulf of Mexico on the east, form a distinct economic and social entity, different from the rest of the United States and Mexico. Mexico feeds off the Texas side, with many children crossing legally or illegally to go to school on the U.S. side, as most mayors of Juarez have done.

BY STUART ALEXANDER—THE WASHINGTON POST

Mexican woman assembles wiring for General Motors Corp. at a factory in Ciudad Juarez.

Mexican women also try to cross over so their children will be born in American hospitals, which has prompted El Paso County Judge Pat O'Rourke to send a $10 million bill to President Reagan for social and hospital services the county supplied last year to Mexican aliens.

Pan American University's Patrick called the U.S. side of the border "undeveloped" compared with the rest of Texas, with an average per capita income that is 40 percent below the rest of the state. "Poor health, low educational achievement and limited job opportunities characterize the region," he said.

The answer, according to border economists and politicians, is more growth for Mexico's *maquiladoras*.

That program also fits with the new trade and investment policies of the de la Madrid government, which appear to have shifted to a far more liberal direction. During the past two years, Mexico has gained credibility on Capitol Hill and with the Reagan administration for its new position on trade. It has agreed to join the international organization that regulates trade, the General Agreement on Tariffs and Trade (GATT); started to cut its subsidies; allowed IBM to open a fully owned factory to make computers for sale in Mexico; and settled a nettlesome dispute with American pharmaceutical manufacturers.

Sen. Bentsen, just back from Mexico City, exulted over what he called "a dramatic change in attitude" on the part of the de la Madrid government and businessmen there. "There's a feeling on the part of Mexico that they cannot continue to remain isolated and insulated on trade, and that they can't be as protectionist as they have in the past," he said.

Mario Rodrigues Montero, commercial counselor at the Mexican Embassy in Washington, agrees with Bentsen that sharing industries along the border can help both countries. He sees that area as a "buffer zone" that could help dismantle immigration, cultural and political frictions between the two neighboring nations.

Together, he said, the United States and Mexico can make cheaper and better cars than either Japan or Korea. "Instead of competing," he said, "we can be complementary and face the rest of the world together. Mexico wants to use trade for its economic growth and to pay its debt."

The seeds of that vision can be seen here, in plants located at seven neatly landscaped industrial parks. The plants are competing for able workers, offering higher wages and such fringe benefits as free transportation and better lunches in free employe cafeterias.

"Instead of 40 people lining up for every job, we have to work at it," said Frederick H. Mitchell, vice president of Elamex, a 13-year-old company that operates plants here for American manufacturing companies. "We no longer can take labor for granted. If we don't pay attention to our industrial relations, we lose it and we have turnover. With turnover comes all the bad things, lack of quality, high manufacturing costs, extra training costs."

He said this labor shortage is the biggest change that has come to Juarez in the past three years.

Mitchell said his company seeks untrained workers, which are "the best you can get. We want to hire someone who has never had a job, who is 16 years old and has finished grammar school. They make the best workers because they have no bad habits."

A majority of the workers are women, which is upsetting traditional Mexican society, but more men are now working in the plants.

As the labor costs grow in Juarez, El Paso banker W. Merriman Morton noted "a rapid shift" to capital-intensive manufacturing along the border. Morton, president of Texas Commerce Bank in El Paso, predicted the factories here "will continue to flourish, but they perhaps will not grow as quickly as before.

"Instead, their labor-intensive business will shift their focus to the Mexican interior," with its plentiful pool of underutilized workers.

That appears to suit the Mexican government just fine, and would represent a big success for the *maquiladora*.

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APR 19 1986
p. G1, G8

Mexico to Seek $1 Billion in Japanese Loans

By William A. Orme Jr.
Special to The Washington Post

MEXICO CITY, April 18—Mexican Finance Minister Jesus Silva-Herzog will travel to Tokyo Saturday in an attempt to secure $1 billion in Japanese loans and investments, Mexican and Japanese government sources said today.

Silva-Herzog is scheduled to meet Monday with Japanese Prime Minister Yasuhiro Nakasone for the first of a week-long series of meetings with Japanese officials, bankers and industrialists, a spokesman for the Japanese Embassy here said.

Japanese government sources said they expect Silva-Herzog to ask for more than $300 million in trade credits for the construction of new Pacific pipelines and oil-loading facilities, plus a similar amount for a long-postponed expansion of a Pacific Coast steelworks. In addition, Japanese banks expect to be asked for $400 million in new direct loans, Mexican Finance Ministry spokesman Rafael Resendiz said today. Japanese officials "are waiting to see what concrete projects and credits the Mexicans put forward," said a high-level Japanese diplomatic source.

According to one Japanese government source, Mexico has suggested that some of the loans could be repaid with oil exports. The Mexican oil-credit proposal "is still in a preliminary stage" and might be discussed at a meeting planned for Tuesday with officials of the Japanese Ex-Im Bank, an official of a Japanese foreign trade agency said.

Resendis denied the reports, but said Mexico planned to ask Japan to increase its Mexican oil purchases, which would indirectly provide a guarantee for the repayment of new loans.

Japan now purchases an average 180,000 barrels of Mexican crude daily, making it Mexico's biggest oil customer after the United States and the only major Mexican oil client that has not cut back substantially on its purchases this year. With Japanese banks holding $16 billion of Mexico's $98 billion debt, Japan is surpassed only by the United States as Mexico's leading foreign creditor.

In recent weeks, with the world oil price plunge critically eroding Mexico's export income, Silva-Herzog has urged Japan and

See MEXICO, G8, Col. 5

Mexico to Ask Japan Aid

MEXICO, From G1

other industrial oil importers to direct part of their energy savings to debtor countries in the form of credits, investments and increased import spending. The finance minister has scheduled a meeting Wednesday with private Japanese bankers in which he is expected to discuss Mexico's quest for $2.5 billion in new commercial loans this year.

Some Japanese believed that the United States also was pressuring Tokyo to channel much more of its trade surplus toward Mexico and other Third World borrowers. "The feeling among a lot of Japanese businessmen here is that the United States is almost ordering Japan to lend more to Mexico, and Japan is going along," the Mexican representative of a major Japanese corporation said.

Mexican officials long have sought an increased Japanese investment presence in Mexico to counterbalance U.S. capital, which represents two-thirds of all direct foreign investment here. Japanese firms account for some $7 billion of Mexico's foreign investment, while West Germany, with $8 billion, is the second-largest investor in Mexico, according to Mexican government figures. Japanese companies nearly doubled their investments in Mexico during the 1978-81 oil boom, but largely halted their expansion following the 1982 debt crisis here.

Japanese companies recently rebuffed requests to increase their holdings in companies in which they are now minority partners with the Mexican government, sources close to the projects reported. "Their reaction was completely negative," a Mexican close to the negotiations said. "The Japanese have lost confidence here."

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JACK ANDERSON and DALE VAN ATTA

Mexico May Spur Private Enterprise

In a desperate attempt to save his country from economic collapse, Mexican President Miguel de la Madrid appears to be following some advice President Reagan gave him in a meeting early this year: Give private enterprise a chance to pull Mexico back from the brink of disaster.

The meeting between the two heads of state took place Jan. 3 in Mexicali, Mexico, just across the California border. The 75-minute discussion dealt with Mexico's crushing $97 billion foreign debt—and the need for U.S. help just to pay the annual interest of nearly $10 billion.

Mexico is the world's fourth-largest oil producer, and oil accounts for 70 percent of its export earnings. As the price of oil continues to plummet, de la Madrid's initial austerity measures are pathetically inadequate.

In a recent interview, Reagan gave us his account of what he told the Mexican president, starting with Reagan's assurance that "they are a neighbor and we have too much in common for us not to be concerned about their situation."

The president continued: "I was talking to him about how the secret of success or greatness in any country has literally been based on their willingness to import money and people. And it's the secret of the United States—the people who have come to us, but also the investment from abroad when we were a pioneer nation with nothing but raw resources to go on."

Reagan, who has been selling private enterprise successfully since his days with General Electric, appeared to have struck out with de la Madrid—at first. The Mexican president, Reagan said, "cited to me the fact that so much of their structure is based on ancient Spanish laws."

This may be questionable history: Since at least 1910, Mexico, wary of exploitation and foreign domination, has had strict rules prohibiting foreigners from majority ownership of Mexican companies. That has had an understandably discouraging effect on would-be foreign investors. In addition, the Mexican government has expropriated many industries over the years.

But Reagan was not put off. He told de la Madrid "about places where, if investors could be assured that they could own property, that they could control it as they could in this country," they would be eager to invest.

De la Madrid again demurred, said Reagan, citing "the tradition of these ancient laws that made it difficult for government to give this freedom of private ownership and all."

"Well," Reagan told us, "until they're ready to challenge these laws, I think they're going to have problems in today's world of readjusting and having the kind of economic growth that they could have. The potential is there."

Since their January meeting, de la Madrid appears to have had second thoughts. In a television speech Feb. 21, the Mexican president announced that his government will divest itself of even more state-owned companies than the 236 it sold last year. He said trade will also be liberalized.

Our sources predict that this announcement portends far-reaching "structural changes" that will include majority ownership of corporations by selected foreign companies.

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THE NEW YORK TIMES, SUNDAY, FEBRUARY 16, 1986 SEC 3 Pg 4

Mexico Tries an Open-Door Policy

The oil crisis is dissolving fears of foreign capital and new imports.

By WILLIAM STOCKTON

MEXICO CITY

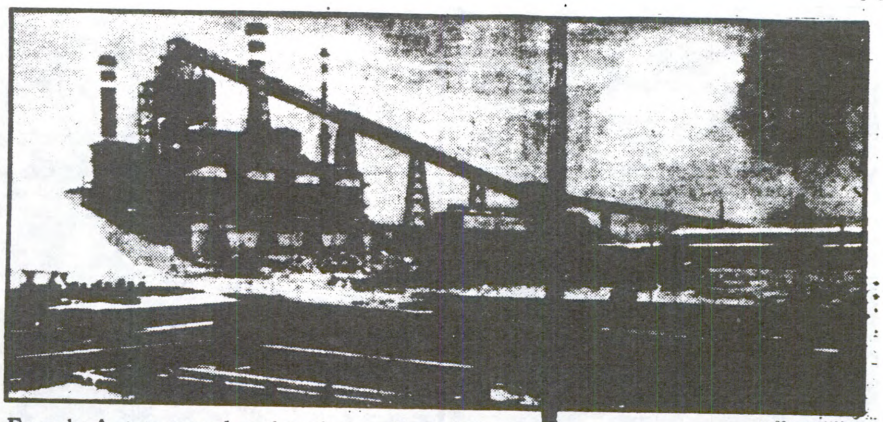
FOR many months, radio stations here have run public service announcements informing listeners that Mexico is undergoing "structural changes" that will benefit all Mexicans. And scarcely a day passes in which a Government official is not quoted calling for the same "structural changes," saying that Mexico cannot progress without them.

Rarely are the changes spelled out. Rather, the vague references are part of a low-key Government campaign that has become a litany, a seemingly ordinary recitation of longstanding policy.

But in reality, "structural changes" are code words for a new economic direction that President Miguel de la Madrid is attempting, which would bring to Mexico the sort of free-market economy long advocated by President Reagan as the best engine of economic growth. On several fronts, the de la Madrid administration is turning away from a system that for decades has kept social peace by subsidizing many sectors of the Mexican economy, providing strong support for Mexican-owned companies and protecting them from the competition of world trade.

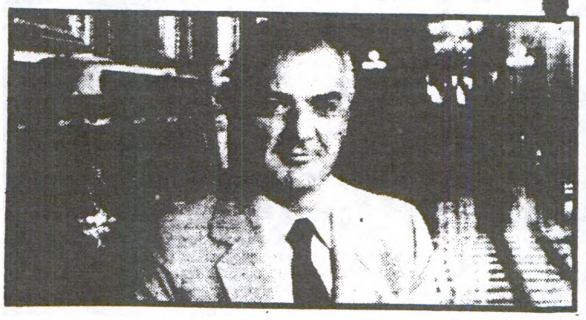
Now, in a bid to attract more foreign investment, the Government is relaxing rules that had barred foreign companies from majority ownership in their Mexican operations. They are rules that have their roots in the Mexican revolution of 1910. The Government is also trying to divest itself of some of the hundreds of state-owned companies, many of which have been money-losers for years. And as a prelude to membership in the General

Increasingly, lenders are demanding that the country open its economy to foreign investment.



For sale: A state-owned steel works near Lazaro Cardenas

Magnum/Abbas



President Miguel de la Madrid

Sygma/Diego Goldberg

Mexican businesses. And economic planners are revising their budgetary expectations as crude oil prices plunge even more. It means that Mexico's borrowing needs will likely be greater, now that the foreign currency earned from oil exports fall far short of serving Mexico's $97 billion debt, which requires about $9 billion in annual interest payments.

The Government believes it will have a deficit this year about equal to the interest payment, although some American officials and foreign bankers think that estimate is high. Whatever the figure, the assumption is that Mexico must receive more financial help, either through new loans from banks and international organizations, or, as Mexico would prefer, through reductions or postponements of interest paymehts.

Additional financial aid or an easing of the interest payments in effect give the de la Madrid Government more time to carry out its economic changes. Since the debt crisis began in 1982, the Government has introduced many austerity measures, in an attempt to rein in the deficits and put the economy on an even keel.

International lending agencies such as the International Monetary Fund and the World Bank, which have [illegible] of the economic reforms likely to draw opposition from one politically powerful group or another.

ONE of the tenets of the plan is to relax Mexico's rules barring foreign companies from majority ownership of their operations in Mexico. Mr. de la Madrid says that Mexico will choose the companies allowed to have 100 ownership on a case-by-case basis. He hopes that foreign manufacturers will generate exports, create jobs and bolster investors' confidence. But last year, officials say they received commitments from foreign investors totaling only about $1.8 billion — and that actual investments came to only about $400 million.

At least part of this difference is attributed to foreign investors' lack of confidence. There are fears that the relaxation of foreign investment rules might later be tightened, making it difficult for a company to earn an adequate return. Potential foreign investors also worry about the possibility of future expropriation of their Mexican operations if government policies change. What also complicates [illegible]

gotiations. In the process, I.B.M. had to agree to invest $84 million more than it had originally intended, accept some marketing restrictions and agree to help Mexico create a semiconductor design center in which microchip design technology will be taught to Mexican companies.

MR. DE LA MADRID has also ordered that the Government divest itself of some of the hundreds of state-owned companies that have been a hallmark of the Mexican economy. Besides owning such things as the oil, electrical and communications industries, which will be retained, the Government also owns a host of companies ranging from hotels and steel mills to bakeries and motion picture companies.

Many of these companies are industrial derelicts, plagued by labor troubles or requiring huge subsidies to survive. Indeed, economists and bankers estimate that half of the Government's deficit is generated by subsidies to the state-owned enterprises. So far, however, lines of eager investors waiting to buy the companies have not materialized.

"Who would want to invest his money in a bankrupt company or a company with irresolvable labor problems?" asked one Mexican bank executive who requested anonymity.

Last year, 236 Government-owned companies were ordered liquidated, sold or transferred to state governments. Many of the companies were acquired when they went bankrupt, others when their demise threatened to create unemployment. Some were created because the Government thought it could do a better job or better protect the public interest.

So far, the major sale has been in the hotel industry. Last fall, a group of hotels and restaurants, including some of Mexico City's best hotels and hotels in several other major cities, were sold by the Government for $80 million to a group of Mexican investors. The hotel group was described

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investment.

Agreement on Tariffs and Trade, which it hopes will strengthen its trade position, it is dismantling its restrictive import-licensing system.

The problem, however, is that the changes are being made just as world oil markets are collapsing, throwing Mexico into a huge economic crisis.

The plunging crude prices — Mexico cut its posted price by nearly $5 last Friday — have made many here feel like prisoners of oil — and that, in turn, is increasing pressure on politicians and economic planners to move toward accepting a new economic order, particularly the goal of diversification into non-oil exports. Yet the changes have the potential to draw substantial politicial opposition and that opposition could force the Government to abandon — or modify — some of the moves it has made.

"The direction they have taken is the correct one and they have no choice but to follow it," one economist said. "But what happens to oil prices and Mexico's need for new financial help from abroad greatly complicates everything."

The Mexican Government, which devised the plan last year after watching the economy get battered by a steady decline in oil prices, owns its petroleum resources and extracts and sells oil through Petróleos Mexicanos, a state-run monopoly. Oil, rather than tax revenue, generates a large part of Government revenues — 41 percent, in fact — and accounts for 70 percent of export earnings.

The steady decline of oil prices in recent years has generated large Government deficits — almost 10 percent of the 1985 gross domestic product, or more than $5 billion. The deficits are largely responsible for inflation rates of 63 percent last year and a shortage of credit that has plagued [illegible] an attempt to rein in the deficits and put the economy on an even keel.

International lending agencies such as the International Monetary Fund, which have played a key role in extending credit to Mexico in recent years, have been pushing for the economic changes slowly being tried by Mr. de la Madrid. Increasingly, the need to open the Mexican economy has been tied to further loans. The Baker Plan, named after United States Treasury Secretary James A. Baker 3d and which would extend further loans to Latin American debtor countries, emphasizes the need for the countries to open up their economies in order to grow.

But how to do this in Mexico's case?

Mr. de la Madrid's answer has been to quietly embark upon a bold economic liberalization program designed to lessen the Government's overwhelming dominance of the economy, integrate Mexico into the world economic order after decades of protectionism and greatly expand non-petroleum exports. He seems to be proceeding quietly so as not to rock the political boat too severely in a year when a number of key governorships and mayoralties are up for election.

Taken singly, all the Government's economic moves do not seem particularly earthshaking. As a whole, however, they reflect a significant policy shift as important as any since the Mexican revolution began in 1910. What remains to be seen, of course, is whether the plan will work. Numerous obstacles stand in the way, the most potentially troublesome of which is Mexican politics.

The liberalization flies in the face of long-held and cherished tenets of Mexican political philosophy. The ruling Institutional Revolutionary Party, known here as P.R.I., has held power for nearly six decades by pulling a diversity of interest groups under its political tent. But there is something in virtually every element [illegible] Mexican operations if government policies change. What also complicates the plan, diplomats say, is the fact that companies permitted to own 100 percent will be chosen on a case-by-case basis, a situation that diplomats consider too arbitrary.

Chrysler, Ford and General Motors already have fully-owned operations in Mexico, but they were established under deals negotiated decades ago. Now, the International Business Machines Corporation is the Government's most notable success story of a big company coming in under the rule change. I.B.M. will invest $80 million in new Mexican facilities and retain full ownership. It plans to manufacture XT personal computers, exporting 50 percent of the factory's output. Projections are for exports of $600 million in five years, which would thrust I.B.M. into the ranks of Mexico's top 10 exporters.

But I.B.M. received permission to build its new plant and retain full ownership only after first being rejected and then entering into long negotiations.

Many obstacles stand in the way of the plan, but Mexican political traditions may be the most troublesome.

were sold by the Government for $80 million to a group of Mexican investors. The hotel group was described as one of the few Government-owned enterprises on the auction block that was profitable.

Despite that, hotel owners familiar with the sale said that most prospective buyers had been reluctant. They felt the terms for the sale were not sufficiently favorable and that the general decline in Mexico's tourist industry was a threat to future profitability. But a deal was concluded, a hotel executive said, "after the Government did some arm twisting."

The Government's attempt to sell its steel works on the Pacific Coast near the town of Lazaro Cardenas illustrates some of the problems faced. Several groups of foreign investors have studied the possibility of buying all or a part of the complex, at prices said to range from $800 million for part of the complex to $1.5 billion for it all. But each investor group has backed away.

"THE major barrier to anyone considering buying it is the prospect of being in partnership with the Government," said a Mexican businessman who represented one group of potential foreign investors. "The price for which you can sell your steel is set by the Government. But you also must buy your electricity and coal and natural gas from the Government, which sets those prices. The Government runs the railroads and decides what transportation is to cost. The more you look into the matter, the more difficult appears the prospect of turning a profit."

The Government also has begun dismantling its complicated and highly restrictive import licensing system, in which items could be imported only after laborious and time-consuming applications for import permission.

Although import licenses still remain on about one-third of all items, for the other two-thirds, only tariffs now stand in the way. Admittedly, the tariffs are quite high in some cases. But expectations are they will be gradually lowered and the remaining license requirements eventually eliminated. Moving to a tariff system is a prelude to Mr. de la Madrid's other major change — the decision late last year to enter GATT, the General Agreement on Tariffs and Trade.

In its move away from import licenses, the Government could face problems. With its trade balance already endangered by falling oil prices, Government economists fear that imports will soar because Mexican consumers want foreign goods. They say this loss of foreign exchange could more than offset any increase in non-petroleum exports generated by the early effects of the economic liberalization. That could further exacerbate economic problems, forcing the Government to sharply restrict imports. Relations with GATT would then become more complicated.

THE LOOMING DANGER **OF LOWER TARIFFS**

MEXICO CITY

As Mexico becomes a member of GATT, the General Agreement on Tariffs and Trade, the potentially large Mexican consumer market will be opened gradually to foreign competition and Mexican products will be more easily marketed abroad.

The Government hopes that Mexican manufacturers, particularly the small and mid-sized companies, will be able to increase their efficiency and product quality so that they will not lose markets to superior foreign-made products.

But Government and private economists believe that Mexico's decision to join GATT, which will gradually pull down high tariff walls, will cause some Mexican industrial concerns to fail in the face of foreign competition. "I personally believe the number of failures is going to be larger and the process more painful than the Government is letting on," said one foreign diplomat, who asked not to named. "But there are many other Mexican companies that are ready and will thrive under GATT."

GATT is an international group that fosters trade between nations.

Mexico decided to enter GATT once before, during the previous administration of President José Lopez Portillo. But opposition developed and, since Mexico was still basking in seemingly endless petroleum wealth, the decision was revoked.

Now there seems to be little choice. Mexican trade negotiators traveled to Geneva last week for preliminary discussions about entering GATT. They are optimistically predicting entry by next September, but expect to obtain agreement allowing the Mexican economy to be phased gradually into GATT. Eliminating the import licensing system, which often required a year or more to obtain permission to import an item, and sometimes involved favoritism, bribes or other special considerations, was a necessary prelude to membership.

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Christian Science Monitor, September 3, 1985 pp. 31,33

Mexicans ponder their increasing economic ties with 'El Norte'

By John Yemma
Staff writer of The Christian Science Monitor

Mexico City

IN the narrow, shaded streets adjacent to Mexico's National Palace street vendors hawk plastic trinkets, inexpensive dishes, soft drinks, and aromatic snacks.

A bike careers past them with a 10-foot-high stack of newspapers tied to the rack over the rear wheel. The cyclist gingerly balances around the corner and pilots along the flagstone street beside the National Palace, near which helmeted soldiers carrying carbines patrol.

As it happens, on the square just then security authorities suddenly spring to life. They shoo away cameras, order cars to drive on, and scrutinize bystanders. Far down a side street that leads toward the business district, blue lights flash and sirens whine. Policemen and soldiers tense up, traffic parts, and soon a motorcade swerves through Zocolo Square.

In the mid-'70s Mexico's abundant oil resources began to flow as exports. That brought in vital revenue at a time when world oil prices were still bullish and the US was buying great amounts.

"There," says a young Mexican man who is watching, "El Señor."

President Miguel de la Madrid Hurtado is seen briefly in a white sedan. For a six-year period, the President is the virtual king of this country and has vast powers of state. Because he cannot run for reelection, the Mexican President has a strong desire to leave his stamp on Mexico. A brass band strikes up a Mexican version of "Hail to the Chief," and into the palace gates he drives.

In seconds the square is back to normal. Tourists — mostly Americans — move toward the gigantic Cathedral of the Assumption. Food, newspapers, and trinkets are on sale again.

The US connection

There is much more to Mexico, of course, than the Zocolo and a presidential motorcade. This is the 13th largest nation on earth in territory, larger than all of continental Western Europe.

It has universities, supermarkets, scientists, engineers, automobile plants, resorts, farms, barrios, and disños, poverty and plenty.

Although the President and his ministers have offices throughout this city of 18 million, the Zocolo is both the figurative center of the nation and the primary power center.

It is where Montezuma's palace stood — and, after Hernando Cortes crushed the Aztec kingdom, where the imperial Spanish palace was located. It is in the Zocolo that Mexicans officials are attempting to steer this ponderous, paternalistic, and somewhat ungovernable nation into the world community.

On the face of it, Mexico appears to have many economic advantages: a large professional and technical class; a low-cost labor force; oil and gas for cheap energy; a good climate; well-endowed agricultural areas; bountiful tourist attractions.

And perhaps most important of all, Mexico has a 2,000-mile border with *"El Norte,"* the United States, the consumer market coveted by exporting nations around the globe.

But the US is not just a market. It is a giant that could dominate this country. Adolpho Aguilar de Cevedo, an economist with Cide, a Mexican think-tank oriented toward the ruling Institutional Revolutionary Party, worries that links with the US are growing too fast.

"I think," said Mr. Aguilar in an interview at his father's law office on the Reforma in downtown Mexico City, "that no economic or political analyst in Mexico or the US could disagree on the fact that the process of [economic] integration [with the US] is taking place on a very unequal basis."

Resources and economic activity are being concentrated in the northern Mexican states near the US border. These are seen primarily in the highly successful *maquiladores* — US companies that own and operate factories in Mexico using Mexican labor to assemble components for sale north of the border.

There are 590 twin plants along this border, with a high concentration in the El Paso/Cuidad Juárez area. These include General Motors, General Electric, Ford, United Technologies, Westinghouse, RCA, Johnson & Johnson, and many others.

While these contribute in a modest way to Mexican employment, they tend to be capital — not labor — intensive. Aguilar worries that many economic decisions are now being made "by virtue of the interest of the American economy and not by the national interest of Mexicans."

By contrast, Finance Minister Jesús Silva Herzog Flores, in an interview at the National Palace, argues: "We have to face the real truth that we are living in a much more interdependent world and things that were true 10 or 20 years ago are not anymore. We have to look to a much more open type of approach, with much more imagination."

A patriarchal legacy

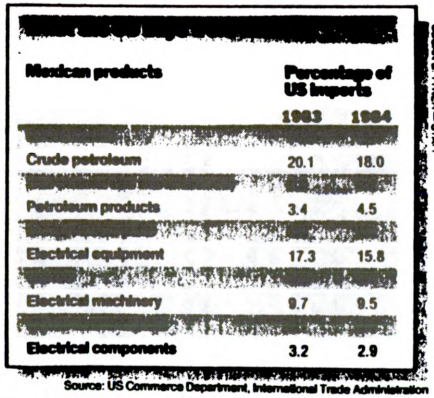
There is a heated debate here over whether this nation should join the General Agreement on Tariffs and Trade (GATT). The administration of President de la Madrid favors entry. But government, business, and labor leaders are split down the middle.

One side argues that Mexico must join GATT to boost its sagging exports and reform its chronically inefficient economy. The other side sees GATT as a stalking horse for closer ties to the United States and the possible loss of some of Mexico's hard-won economic sovereignty.

Rogelio Ramírez de la O, director of Econal, a business consulting firm in Mexico City, says it is imperative that Mexico join GATT: "The only reason for not joining is short-term losses." He notes that there are "no reasonable prospects in the oil market, nor voluntary credit to get more foreign exchange." Hence he sees exports as the key to survival.

Still, Mexico City is very careful not to give the impression it is ceding control to foreign powers. Earlier this summer, the government approved a proposal by IBM to build a 100 percent US-owned computer plant in Mexico — a move that encouraged foreign investment. Previously, Mexicans had to control 51 percent of a venture on their soil.

But last week the government rejected a request by the Chrysler Corporation for a joint venture to build diesel trucks in Monterrey. That appears to show that the government still wants to decide how industry — especially the auto industry — is to develop.



SUSAN B. TYNER – STAFF

Source: US Commerce Department, International Trade Administration

At the same time, the Mexican government appears set to cut back its overstaffed bureaucracy and even sell off some state-owned businesses. (There are 18 public sector companies for cinematography alone.) Over the past month a number of government layoffs have been announced — although, as of mid-August, a journalist here said she hadn't yet been able to find a government office that had been visited with many pink slips.

Nevertheless, government officials say the bureaucracy and the public sector eventually are going to get trimmed. "We have announced a very severe cut in public servants," says Finance Minister Silva Herzog, "very substantial layoffs, and we have also announced a very active and dynamic policy of putting back to the private sector a good number of companies that were in the hands of government.

"I think that for the first time in many, many years there has been a political recognition that the size of the public sector in Mexico has to be adjusted to a more limited availability of resources."

In the long run, Mexico must get access to markets in

Please see MEXICO page 33

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MEXICO from page 31

ther countries to expand economically. But the trade-off s that Mexico will have to drop many of its own protec- ionist practices and open its markets to other countries.

From boom to bust

In the mid-'70s Mexico's abundant oil resources in its southern and southeastern states began to flow. That brought in vital revenue at a time when world oil prices were still bullish and the US was buying great amounts.

On the strength of that outlook, American banks made big loans to Mexico and throughout Latin America. Loan money went to roads, power plants, dams, and to a burgeoning public sector. Boondoggles and graft channeled off much wealth as well. The Mexican economy grew rapidly. Between 1973 and 1983 gross domestic product rose on average 5.6 percent annually, according to the World Bank.

During that same period, grain imports increased 200 percent, causing many Mexicans to worry because this nation, with its good agricultural climate, was not feeding itself. Agriculture has had deep structural problems since the 1940s, when the communal land system began to decay. Today it is neither communal nor strictly free enterprise. Farmers lack arable land, water, technical know-how, and credits.

Still, throughout the late 1970s, Mexican exports, led by oil, more than compensated for imports: exports rose at an annual rate of 14.4 percent between '73 and '83 while imports grew only 5.5 percent a year.

When, around 1980, Washington girded to battle inflation, the side effects — recession and higher interest rates — were devastating south of the Rio Grande.

Mexico found it could not sell as many products — especially oil — to the US. Moreover, oil prices fell, so oil earnings declined. And higher interest rates meant more and more of Mexico's GDP was going to servicing loans — loans that were equipped with floating rates that rose with the London Interbank Rate.

In 1982, along with an unprecedented restructuring of its foreign debt, Mexico embarked on an austerity program, cutting back imports and encouraging exports.

The program worked, but austerity is never popular. In the run-up to National Assembly elections this summer, the government eased back. Employment in the bureaucracy burgeoned. The government won the political race, but the economy and debt picture once again were in trouble.

In July, Mexico devalued the peso, cut its oil price, and introduced measures meant to streamline the public sector. Dr. Ramírez points out that despite current economic problems, the Mexican stock market has been doing well, and he sees this as a sign that the economic liberalization measures are encouraging investors.

But what would really help, say Mexican leaders, would be reduction of the budget deficit in the United States enough to begin bringing interest rates down and making that debt-servicing easier on Mexico. This point is made by Silva Herzog, Aguilar, and Ramírez, from their different political perspectives.

WHITNEY D. WOO

In the end, Mexico, perhaps more than any other nation, cannot be treated as a diplomatic or economic abstract by the US. With it the US shares a continent and a hemisphere.

Mexico is home to 77 million people and a work force expanding by 1 million a year. It is the source of most of the legal and illegal immigration to the US.

And it is tied, increasingly, by language, custom, and family to the estimated 18 million Hispanics in the United States.

The futures of the US and Mexican economies appear inextricably linked.

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5. International Debt

US Policy Toward International Debt & Oil Revenue Declines

No realistic alternative to flexible, case-by-case approach to managing LDC external debt problems. Pursuit of sound economic policies by debtors is key to economic improvement; countries undertaking significant policy reform can expect support of international financial community, including the US.

US Policy/Objectives

-- Remain seriously concerned about difficult situations faced by LDC debtors: want to be helpful where we can.

-- "Program for Sustained Growth" announced by Jim Baker is more a "process" than a "plan." It offers a framework for cooperative action to encourage middle income debtors to improve their prospects for sustainable & balanced growth through sound investment.

-- "Program" recognizes that recent progress in reducing external imbalances/halting decline in economic activity must be matched by progress on domestic front, particularly structural adjustment & inflation.

-- Creditor and debtor reaction to this US initiative has been positive. We will continue to urge all elements of the international financial community to increase their support for debtors committed to comprehensive, growth-oriented economic policies.

-- IMF Board has approved creation of Structural Adjustment Facility to use IMF Trust Fund reflows as part of an approach to help the poorest countries.

Oil Price Uncertainties

-- Recent oil price declines should have net beneficial effect on prospects for world growth.

-- However, several of the largest third world debtors are large net oil exporters, and for these countries lower oil prices are a serious complicating factor. For oil exporting debtors, some factors partially offset price declines: lower prices put downward pressure on interest rates, reducing debt service. Stronger OECD growth would provide more opportunities for non-oil exports from debtors.

-- US/other creditors looking for ways to be supportive of oil exporter efforts to confront their difficulties. Believe problems are generally manageable within context of our debt strategy.

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The Real Foreign Debt Problem

By George B.N. Ayittey

Many leaders of nations saddled with a burdensome foreign debt find it convenient and popular to blame their plight on Western banks and governments while they allow rampant corruption and counterproductive economic policies to continue.

Peruvian President Alan Garcia—who has limited debt repayments to 10% of his country's export earnings—said recently: "Economic subjugation and foreign debt are the modern forms of what occupation and military blockade were in the past. The debt . . . has become a modern expression of imperialism." He described interest on foreign debt as a "brazen attempt to collect foreign currency and cover the deficit of the wealthy countries, especially the most powerful country."

Even those leaders of less-developed countries (LDCs) not given to overheated rhetoric propose solutions that address only the international aspects of the debt crisis. For example, the key proposals of the Cartagena Group of 11 Latin American debtor nations include lowering real international interest rates, securing concessionary terms on existing debt, and increasing annual International Monetary Fund lending to keep pace with international inflation. Debtor representatives are also using the IMF and World Bank meetings, which convene in Washington today, to ask for more lending on easier terms. Nowhere is there a concrete set of proposals by the debtor nations to tackle some of the worst domestic causes of the debt crisis: economic mismanagement, inflation, corruption, excessive government control of the economy and capital flight.

Clandestine Nature

Capital flight—the legal or illegal export of foreign exchange—is perhaps the largest single obstacle to a resolution of the Third World debt crisis. Journalist Lenny Glynn writes that "there is growing evidence that capital flight from LDCs was a major factor behind the cash shortages that drove several of them to the brink of bankruptcy." James S. Henry, an economist writing in the New Republic, reports that "More than half of the money borrowed by Mexico, Venezuela, and Argentina during the last decade has effectively flowed right back out the door, often the same year or even month it flowed in."

What is the source of this capital? A great deal of it represents money invested abroad by those who have little or no faith in the management of their countries' economies. But much of it consists of tens of billions of dollars spirited out of the LDCs by corrupt officials since the 1970s. Owing to its clandestine nature, precise figures on much of the capital exodus are hard to come by. But in Canadian Report on Business magazine, Mr. Glynn cites a revealing confidential study carried out by a New York bank. After examining the balance-of-payment accounts of 23 debtor nations from 1978 to 1983, it was discovered that while those nations added $381.5 billion to their foreign debts, $163.1 billion flowed back out as capital flight. Some examples from that five-year period:

- Argentina incurred $36.7 billion in new loans while $21 billion left the country.
- The Philippines added on $19.1 billion in new debt as $8.9 billion left.
- Venezuelans spirited $27 billion out of their country while that nation's debt load rose by $23 billion.

These findings are corroborated by another study by the Bank for International Settlements. It found that, excluding Venezuela, some $55 billion left Latin America between 1978 and 1982.

Walter Wriston: "Most people believe that the flight of capital from Latin America . . . [to the U.S.] exceeds the total capital remaining in those countries."

If anything, capital flows are even greater today. At a recent Manhattan institute luncheon, Walter Wriston, the former chairman of Citicorp, reported that in February alone, $3 billion in capital was sent out of Mexico. According to Mr. Wriston: "Most people believe that the flight of capital from Latin America on deposit in New York and Miami exceeds the total capital remaining in those countries." This hemorrhaging of financial assets means that further solutions to the debt crisis must come from the debtors themselves. As Mr. Wriston says: "There is no point in lending money to Mexico if they don't let their currency float, bring their inflation down, and reduce their deficit. There is nothing that a lender can do to help."

Capital flight is, of course, not unique to Latin America. Billions of dollars were whisked out of Africa by corrupt government officials in the late 1970s and early 1980s. A recent Nigerian government investigation estimated that at the height of the oil boom in 1978, corrupt politicians were transferring $25 million a day abroad. President Mobutu Sese Seko of Zaire is reported to have amassed some $5 billion in Swiss bank accounts—a fortune large enough to pay off his nation's entire foreign debt of $4.4 billion.

Besides naked looting by corrupt officials, there are other ways to strip a country of its capital. One is to persuade a foreign contractor to inflate a project's cost and deposit the surcharge in the foreign bank account of an official. In 1974, Argentina's then minister of economics, Jose Gelbard, had two foreign companies deposit $4 million in a Swiss bank account after he agreed to purchase a nuclear reactor they had built. In the Philippines, Imelda Marcos was nicknamed "Mrs. Ten Percent" for the cuts she allegedly took off big government contracts.

Another way of transferring capital abroad is to over-invoice imports. Here a foreign supplier is persuaded to inflate the cost of an import item and place the difference in a minister's foreign bank account. An investigation by the government of Ghana in the early 1980s revealed that the country was losing at least $80 million a year through over-invoicing of imports.

Under-invoicing of exports and smuggling also rob an LDC of much-needed capital. Diamond smuggling—75% of which is done through the VIP lounge at the Luanda airport—costs the Marxist government of Angola some $70 million a year in lost foreign exchange.

The foreign loan or aid money that is not shipped out of the recipient country is often used to build expensive show projects and to pay bloated government bureaucracies. Nigeria has spent four years and billions of dollars on its proposed new capital of Abuja. Its cost will equal the $24 billion total sovereign debt of Nigeria. Foreign loans are also often channeled into inefficient and corrupt state-owned enterprises. In Ghana, for example, the state-owned sector received more than 90% of the foreign loans while much of Argentina's $50 billion in loans went to the military and a collection of 353 state enterprises.

While the international aspects of the debt crisis are important, it is clear that the LDCs must reform their domestic economies and curb corruption and bribery. If wealthy Argentines would repatriate the estimated $30 billion they have hoarded abroad, their country's $50 billion debt crisis would be dramatically eased. If rich Mexicans returned the $45 billion they hold in property and bank accounts abroad, according to Mexican government statistics, Mexico's debt would be halved.

It is within this context that the plan proposed by Treasury Secretary James Baker last October to grapple with the debt crisis should be assessed. The Baker Plan envisages a pledge of $29 billion in new loans from Western commercial and development banks to the debtor nations. In return, the debtor nations would be required to pursue sound anti-inflationary policies and institute major structural reforms to reduce the role of the state in their economies, liberalize trade and arrest capital flight. In the next week, the World Bank and IMF will begin implementing this plan by setting up an initial $3.1 billion lending program largely for nations in sub-Saharan Africa.

In essence, the provisions of the Baker Plan do not differ radically from the austerity measures the IMF often already prescribes as conditions for its aid. Those conditions have been assailed in the past by LDC leaders as "offensive" and "politically suicidal." It is no surprise then that the reaction of the debtor nations to the Baker Plan was cool and disheartening. Only Argentina, Ecuador and Mexico expressed guarded willingness to endorse some of its aspects.

While leaders of the debtor nations overwhelmingly reject Mr. Baker's initiative, they don't propose a substitute that deals with the domestic side of the debt crisis. It is tragic that so many countries that struggled so long for their independence from colonial powers are now led by people who must wait for outsiders to come up with realistic solutions to their domestic economic problems. What proposals have these leaders ever made to solve the problems of capital flight, inflation and economic mismanagement?

That progress is possible is shown by the experience of Brazil. Even the modest reforms initiated by that country's new democratic government have paid large dividends. In 1985, Brazil had a balance-of-trade surplus of $11 billion and a real growth rate of 8%—double that of the U.S. As Mr. Wriston says: "Two years ago, they were saying the beads over Brazil. . . . If you handle your affairs correctly, the capital of your own people will come back. If your own people don't trust you, why should anybody else?"

All Too Willing

The notion that debtor nations are the innocent victims of greedy international bankers is patently false. Three of the richest people in the world are current or former leaders of LDCs: President Mobutu of Zaire (estimated wealth of $5 billion), the Marcoses of the Philippines (estimated wealth of up to $10 billion), and President Suharto of Indonesia (estimated wealth of $3 billion). Many of these leaders wouldn't dream of sharing their wealth with their own people. Yet, they want the rich nations to share theirs with the Third World. And they are often all too willing to make paper promises of reform in exchange for another foreign-loan fix.

It takes very little common sense to realize that pouring water into a bucket full of holes is pointless. Similarly, without genuine efforts by the LDCs to address the domestic side of the debt crisis, an international rescue package of loans will flow right back out of the debtor nations in the form of capital flight and booty.

Mr. Ayittey, a native of Ghana, is an assistant professor of economics at Bloomsburg University in Pennsylvania.

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WASHINGTON POST
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APR 10 1986 p. A14

Latin Debt Crisis Called Threat to Area's Stability

By Joanne Omang
Washington Post Staff Writer

A group of 60 business and opinion leaders from 18 Western Hemisphere nations yesterday denounced U.S. aid to rebels fighting the leftist government of Nicaragua but added that the continuing Latin American debt crisis is a bigger threat to regional stability than current fighting.

Sol M. Linowitz, who co-chairs the Inter-American Dialogue group, said members agreed that aid to the rebels, known as contras, "offers no solution to the security problems posed by Nicaragua and obstructs progress toward any regional peace settlement."

But Nicaragua should renounce support for rebels elsewhere in Central America and reduce its military ties to Cuba and the Soviet Union, Linowitz told reporters.

Elliot L. Richardson, former U.S. attorney general and defense secretary, said the group sees no problem with a Marxist state in Latin America in the context of a verifiable pact among all Latin nations renouncing support for subversion and civilian rebellions.

Former Ecuadoran president Galo Plaza, co-chairman of the private, nonpartisan organization, said the debt problem "is far more serious than anyone realizes in the United States, and nothing has been done to solve it."

He said a large-scale private investment plan proposed by Treasury Secretary James A. Baker III is "a step in the right direction . . . but inadequate."

In its third annual report on Latin troubles, the group proposed an economic revitalization program for the region that would include writing off part of some countries' debts and restructuring the rest. It would also require $20 billion in new capital and low-interest loans.

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JOURNAL OF COMMERCE

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p. 4A

APR 14 1986

Mexico Stops Capital Flight

By WILLIAM A. ORME Jr.
Journal of Commerce Staff

MEXICO CITY — Mexico has managed to stop capital flight so far this year, but its massive oil revenue losses will accelerate inflation and swell the deficit beyond government projections, the head of Mexico's leading business association warned.

Between $600 million and $700 million in private Mexican funds deposited abroad was repatriated in January and February, reversing the flight of capital that is commonly estimated to have sent at least US$20 billion out of the country since the beginning of the decade, reported Claudio X. Gonzalez, president of Mexico's private Business Coordinating Council.

Despite this positive development, Mr. Gonzalez said in a speech outlining his organization's 1986 economic forecast, the steep drop in oil revenues this year will push the federal government deficit above last year's 10% of gross domestic product and inflation higher than the 63% registered in 1985.

Mr. Gonzalez said Mexico's oil income could fall as much as US$10 billion this year, as compared to the US$8 billion decline projected recently by President Miguel de la Madrid.

At a symposium on Latin America's foreign debt in Atlanta, Ga., Mexican Finance Minister Jesus Silva-Herzog also reported that expatriated capital had begun to return in the first two months of 1986.

He attributed the trend to the central bank's drastic curtailing of domestic credit, which has apparently forced Mexican businessmen to draw on offshore bank accounts.

Foreign bankers have repeatedly said that before they lend Mexico more fresh credit, the government must first change its economic policies in order to arrest the outflow of private capital.

Mr. Silva-Herzog in Atlanta endorsed the "general accuracy" of U.S. government estimates that Mexicans had some $14 billion deposited in U.S. bank accounts as of September 1985.

He stressed, however, that all but $8 billion was transferred abroad before 1982, when the present government began its IMF-supervised program of devaluations and credit contraction.

There are no reliable estimates, Mr. Silva-Herzog noted, of private Mexican holdings in foreign businesses and real estate, estimated by some U.S. analysts to exceed US$3 billion.

Mexicans also have deposited several billion dollars in confidential accounts in Panama and the Cayman Islands, according to reports from the two offshore financial centers.

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Washington Post, April 8, 1986, pp. D1, D8

Mexican Minister Urges Nations to Aid Oil Exporters

By James L. Rowe Jr.
Washington Post Staff Writer

ATLANTA, April 7—Mexico's finance minister said today that industrial countries will save between $60 billion and $60 billion because of lower oil prices this year and that some of it should be channeled to hard-hit oil-exporting countries such as Mexico to help them pay their debts.

Mexico, with a foreign debt close to $100 billion, will find it difficult even to pay just the interest this year because of the precipitous decline in the price of oil. Oil accounts for about 70 percent of Mexico's export earnings.

Speaking to a two-day debt conference here, the finance minister, Jesus Silva Herzog, did not spell out how the industrial countries' savings should be transferred to debtor nations. He called for "lower interest costs and compensatory financing in adequate terms."

Terrence Canavan, executive vice president of New York's Chemical Bank, said that commercial banks, which account for about two-thirds of Latin America's $370 billion in foreign debt, will have to step up their lending to debtor countries, but warned that banks will find it impossible to justify interest rates so low that the banks lose money on the loans.

Canavan and Eduardo Wiesner, a top official of the International Monetary Fund, endorsed the debt strategy outlined last year by U.S. Treasury Secretary James. A. Baker III. The so-called Baker initiative was proposed to help Latin American countries resume healthy economic growth after years of recession.

The Baker initiative calls for a sharp increase in lending to debtor nations by commercial banks, and multilateral institutions such as the World Bank and the Inter-American Development Bank. In return for the increased lending, debtor nations are supposed to make major changes in their economic policies, such as selling inefficient state companies.

Canavan predicted that within a matter of months there will be new lending packages for Mexico and Argentina that will be considered part of the Baker plan. He said the Baker process is slow because countries first have to reach agreements with the International Monetary Fund and the World Bank before they go to commercial banks for new loans.

Banks have been criticized in recent months because their lending to debtor nations virtually has dried up during the last year. Because Latin American debtors must spend as much as 50 percent of their export earnings to pay interest on their foreign loans, most of them have been unable to afford the imports and investments that are vital to economic growth and modernization.

Silva Herzog, who signaled the beginning of the debt crisis in 1982 when he announced that Mexico no longer could pay its debts on time, said yesterday that lower oil prices will have a

See DEBT, D8, Col. 1

positive effect on the world at large, including most debtor nations.

But countries that rely heavily on oil exports—among them Mexico, Venezuela, Ecuador and Nigeria—have been hit hard by the drop in oil prices. Crude oil prices have fallen from about $27 a barrel late last year to about $11 a barrel today. Silva Herzog warned that, unless oil-exporting debtor countries are helped, there is a danger of a "further deterioration of the debt crisis forced by economic, social and political realities."

He reiterated a theme sounded two months ago by Mexican President Miguel de la Madrid Hurtado that it is time for banks and others to share some of the sacrifices that debtor nations have borne for the last several years. But like De la Madrid, Silva Herzog was not specific today in how those sacrifices should be shared.

Canavan of Chemical Bank said that bank lending to debtor nations will continue, although at a slower pace than in the late 1970s and early 1980s. He said that the debts never will be repaid in full, any more than the debt of the United States or the debt of American Telephone & Telegraph will be repaid.

He said that the goal of the Baker initiative and commercial banks is to create an environment in which debtor nations grow fast enough to have no further problems paying their foreign loans.

The Latin American debt conference is sponsored by the center established by former president Jimmy Carter at Emory University here.

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p. 3C
APR 22 1986

MANUEL CAMACHO

The debt crisis, viewed from Mexico

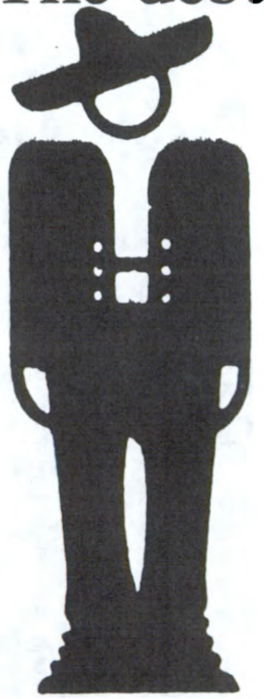
In 1919, John Maynard Keynes wrote a masterpiece of economic vision and political wisdom. In *The Economic Consequences of the Peace*, he concluded that Germany would risk permanent insolvency, being unable to pay its war reparation costs. He anticipated the political risks and consequences of an unfeasible short-term solution: radical politics, a dictatorship, and a threat to the stability of the international economic organization.

Mr. Keynes was not worried about Germany alone. Rather, he worried about Europe and a viable economic organization, particularly for his motherland, England.

His remembrance is dramatic: "Paris, at the time of Versailles treaties, was a nightmare and everyone there was morbid. A sense of impending catastrophe overhung the frivolous scene and the futility and smallness of man before the great events confronting him and the mingled significance and unreality of the decisions and levity, blindness, insolence, confused cries from without, all the elements of ancient tragedy were there."

Where was the option for sound policies and realistic politics instead?

In 1986, Mexico is at the center of world affairs. It is suffering from the impact of the world's two most important economic variables of today. In the case of interest rates, we are dealing with an American fiscal deficit and with its interrelated electoral, economic, military, and fiscal considerations. Regarding oil, we are in a new type of warfare, where



national interests, cartel efforts, and different strategic concerns are involved. Even if the present trends correct themselves, we are confronting an unprecedented external shock.

The latest oil-price decline will mean for Mexico a loss of around $6.5 billion, or 30 percent of its total export volume in goods and services, and at least 12.5 percent of its public financing income.

A shock of such proportions would exert extreme pressure on any country. For Mexico, it occurs after a decline that started in 1981 (the year of the first fall in oil prices and the consequent flight of capital) and is now aggravated by the consequences of a major earthquake whose aftermath we are still suffering. It is really too much.

Mexico has not remained passive. Since Dec. 2, 1981, it has implemented strong measures to improve adverse economic conditions. Public expenditures have been cut drastically. Inefficient non-strategic public industries are being sold, merged, liquidated, or are having subsidies reduced. And, for the first time in decades, the civil service has stopped growing. Better tax-collecting services and elimination of tax loopholes have increased public revenues.

Continuous adjustment of prices for public services — to compensate for growing costs of delivery — have generated equal income in each of the previous three years. Consequently, with lower expenditures and more balanced revenues, the aggregate public-sector deficit has been reduced from 18 percent of gross national product in 1982, to approximately 9 percent in 1985.

In real terms, the value of the domestic public debt has decreased by 30 percent. To increase competitiveness, Mexico has started to liberalize trade by replacing import permits with nominal tariffs. An undervalued exchange rate has been maintained and a decision to join the General Agreement on Tariffs and Trade has been adopted.

Mexico's balance-of-trade deficit for 1981 was converted into an $8 billion surplus by 1985. In real terms, private investment also grew from -24.2 percent in 1983 to 9 percent in 1984, and to 15 percent in 1985.

Mexico is also prepared to reinforce the on-going structural changes in public finance, industrial reconversion, and agricultural productivity.

Who can predict, however, how oil prices and interest rates will behave in the future? There is a need for a middle-term solution with more equitable cost-sharing by all the parties involved. What is needed by Mexico is an approach that combines net financial resources, less market protectionism, and sufficient time to reorient economic expectations and achieve definite results in the economy's process of structural change.

Nobody doubts that Mexico has ample human resources, economic resources, and potential. Mexico has one of the highest records of growth in this century, but it urgently needs to recover sufficient "space" for renewed growth.

Mexico acquired its foreign debt when banks overflowed with the surplus liquidity of some of the oil-exporting countries. Loans were made under the assumption of higher prices and lower real interest rates. At the time, the U.S. Department of Energy projected $60-a-barrel oil for 1986. Mexico made a strategic development mistake and so did everyone else. We have been paying the price.

Increasingly, a larger share of Mexico's national output must be directed abroad to compensate for adverse terms of trade shifts and high interest costs, as well as to achieve an underlying improvement in the current account of the balance of payments. This has implied for Mexico a severe depression in wages and domestic consumption. The Mexican society has proven its resilience and solidarity, but no society can or will follow this path for too long.

A democratic and free government can ask its people for renewed efforts. It can ask its entrepreneurs to be more competitive, its farmers and workers to increase productivity. It can ask its teachers and researchers to improve the quality of education and to contribute to the reconversion of productive activities. But such a government cannot ask its people to sacrifice their own values, religious beliefs, their minimum standards of living, or the security of their families.

Mexico has enforced strict austerity measures for almost four years now. It will adopt decisions that correspond to new circumstances, but the time has come to look for new formulas that will consider financial mechanisms, a reduction of interest rates, and the opening of the markets for its exports.

In a relatively short time, drastic changes have altered all assumptions and predictions. Mexico has fulfilled responsibilities. Now, the time for sharing has come.

Manuel Camacho is Mexico's secretary of urban development and ecology and a member of the president's Cabinet.

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The year of the Mexican stand off

MEXICO CITY AND WASHINGTON, DC

While 1982 will go down as the year of the Mexican debt rescue, 1986 looks like being the year of the Mexican stand off. President Miguel de la Madrid has said that falling oil prices will cost Mexico some $6 billion in anticipated foreign-exchange income in 1986, reducing federal revenues by 12.5% and total export earnings by nearly a third. Mexico's debt-servicing burden, projected originally at about $10 billion in interest and $1.8 billion in principal, must be lightened "in accord with the country's ability to pay", the president declared recently in a nationally televised speech. Mr de la Madrid, rejecting the counsel of influential colleagues, explicitly excluded the option of default—but Mexico nonetheless wants at least $9 billion in new money.

The oil-price slide is already having an effect. Pemex, the state oil monopoly and the country's biggest single purchaser of industrial materials, has stopped payments to all domestic suppliers and other creditors for 30 days. Businessmen fear the Pemex payments suspension will be prolonged, and that other public-sector firms will follow suit.

Mr Jesus Silva Herzog, Mexico's finance minister, has just been in Washington where he met America's secretary of state, Mr George Shultz, and the treasury secretary, Mr James Baker. They did not volunteer an emergency loan nor offer to nudge commercial banks into helping Mexico. Rather, they gave advice on what measures would convince the banks that Mexico was serious about reforming its economy.

Mexico wants its present crisis to yield not just a short-term bailout—but new debt formulas, including below-market interest rates and a recognised link between debt servicing costs and export income (see box). Creditors fear that

Silva Herzog gets advice

To cap it all

The 11 Latin American countries meeting in Uruguay this weekend to discuss ways of trimming the interest bills on their $350 billion debt will not be short of ideas. The Institute for International Economics in Washington last year came up with 24 different proposals. At least three are likely to feature on the agenda in Uruguay.

- Interest capitalisation, a front runner, would place a cap on the rate of interest paid, with the excess capitalised and repaid when the loan matures. The net cash flow is exactly the same as if banks give debtors new money which they then promptly hand back as interest payments. Accountants and American bank regulators see one big difference. The rules governing the treatment of capitalised interest are rather hazy, but it is unlikely that deferred interest payments could be shuffled into current income—ie, banks' profits would fall.

However, some European banks, especially the West Germans, might prefer to extend credit this way rather than through new money. They get tax relief on capitalised interest; they are required to set aside reserves on any new loans to troubled debtors.

- Limiting debt-service payments to a fixed percentage of export earnings—figures in the neighbourhood of 20-30% are talked about. If the deferred interest is capitalised, then the only real difference between this and the first option is that the interest bill will fluctuate from year to year according to a country's ability to pay. Two countries have already unilaterally imposed such a ceiling: Peru at 10% and Nigeria at 30%.

Bankers fear others could follow their lead. Unlike straightforward interest capitalisation, there is no limit on how far interest payments—and hence bank profits—could fall. For example, if Mexico had imposed a 30% debt-service ceiling it would have been required to pay roughly $9 billion in interest payments in 1985. This year, with its exports sharply down, the equivalent interest bill might be only $6 billion.

Some economists say linking debt service to a country's exports would act as a disincentive to expanding trade: higher exports would mean bigger debt-service payments. This argument is weaker than it sounds. The debtor country would still get 70 cents out of every extra dollar of exports.

- A third option—"interest forgiveness"—scares bankers rigid. Debtors would be permanently let off any payments due above a certain fixed rate of interest. This effectively amounts to a repudiation of debt. If Mexico paid an interest rate of only 6% while the market rate remained at slightly over 9%, then the loss in income to its creditors over 13 years (the average life of government debt) would be equivalent to selling Mexican loans at a discount of almost 25%. This, though, is more than they fetch in the secondary market today.

Top 12 debtors 1985

	Total debt* $bn end 1985	Interest payments as % of exports
Brazil	99	37
Mexico	97	35
Argentina	48	52
S. Korea	47	10
Indonesia	36	13
Venezuela	35	23
Poland	30	41
Philippines	27	27
S. Africa	24	9
Chile	21	43
Nigeria	20	15
Yugoslavia	19	14

*Source: Manufacturers Hanover *Estimates*

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(London)

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these mechanisms will also be applied to Brazil, Argentina and others.

Peru, which has already unilaterally declared a ceiling on its interest payments, has scooped up some $700m of gold and silver reserves from around the world and stored them in Lima, out of reach of its bankers to whom it owes about $400m in unpaid interest.

Mexico's bankers, supported by the Reagan administration, want to use the country's latest troubles as a lever to force economic reform. The buzz phrase is "structural change". Mexico's creditors are asking it to court foreign investment assiduously and to lure back flight capital with steeper devaluations and higher real peso interest rates. (Morgan Guaranty, an American bank, reckons that some $16 billion fled the country between 1983 and 1985, compared with its $9 billion of new borrowing over the same period.)

Bankers are also looking for a dramatic symbol of economic policy change, such as the adoption of a single exchange rate (abandoning the two-tier system that fosters bureaucracy and corruption) or the sale of high-profile, potentially profitable government businesses. (Mexicana, one of the two Mexican state airlines, is mentioned as a candidate.) Such a gesture would make it easier to sell a Mexican bail-out to banks' shareholders, as well as to the White House.

While Mr Silva Herzog was in Washington, the other big Latin American oil producer, Venezuela, was signing a multi-year rescheduling agreement with its bankers in New York. Its economy is in a quite different state from Mexico's. Inflation came down last year to about 6%, thanks to a tight-money policy and some price controls. Mexican inflation was 63% last year compared to the 35% that the government had promised.

Mr de la Madrid has pledged to continue—with greater efficacy—the economic programme he began three years ago. Foreign investment will continue to be welcome on a "selective" basis; privatisation will proceed on a modest scale; and the public commitment to lower inflation and the budget deficit will be tempered by concessions to politicians who favour expanding public payrolls.

Mexico's bankers would like to see the government lay off thousands of workers at subsidised state factories. But with the government facing 13 state elections this year, it is unlikely to risk alienating workers—even though, of course, the elections will ensure that the monopoly ruling party stays that way.

So the stand-off continues. Mr Silva Herzog was due to fly from Washington to Punta del Este in Uruguay to attend a meeting of the Cartagena Group, which is made up of the main Latin American debtors. An Argentine proposal to limit interest payments is on the agenda.

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New York Times, February 10, 1986, pp. A1, D23

Fall in Oil Price Is Called a Spur To Mexico Crisis

Officials Seek New Way of Dealing With Debt

By WILLIAM STOCKTON
Special to The New York Times

MEXICO CITY, Feb. 9 — The steady decline in world crude oil prices during the last three weeks has pushed Mexico to the edge of economic disaster, Government and private economists, bankers and diplomats say.

The situation is considered by experts to be graver than that of mid-1982, when the Mexican debt crisis began. They say it will require a dramatic financial rescue package that goes well beyond lending more money and further enlarging Mexico's international debt.

"We must have a new treatment, not just another renegotiation of the debt, but a new approach, a new focus on the whole thing," a senior Mexican Government official said over the weekend. He added, "Lending Mexico more money is not the solution. We will have to get something from everybody involved — from the banks, the international lending agencies, the United States Government."

Broader-Based Rescue

Echoing this sentiment, a senior Government economist said that a new rescue package must have a broader base. "American bank stockholders, depositors, the American people, international lending agencies, the American Government, all are going to have to help," he said.

So far, Mexican officials have not suggested in detail what such a rescue package might entail. But there is ample evidence that the situation has become serious. "It's much more serious than 1982 because now, after three years of austerity, the Mexican people have nothing more left to give," said a Government economist.

"There is no elasticity remaining in the political system to absorb even more severe measures of austerity while we continue to be an exporter of dollars to the world financial community," he added.

His remarks reflect both Mexico's increasing reluctance to pay more than $9 billion a year in interest on its foreign debt, which is near $100 billion, and increasing concern in Mexican Government circles that further economic cutbacks to meet the interest payments could lead to social unrest.

Those cabinet ministers who have responsibility for directing Mexico's economy met in urgent sessions last week to evaluate the continuing drop in oil prices and to discuss the country's options, which appear increasingly limited because Mexico depends on oil sales for 70 percent of its foreign earnings.

The Ministry of Planning and Budget has scrapped the 1986 federal budget that went into effect Jan. 1 and has begun devising a new one. The first budget had anticipated that Mexico would receive average oil prices through 1986 of about $24 a barrel, with daily export sales of 1.5 million barrels of oil. The fiscal experts are now preparing a budget that anticipates oil prices of $18 a barrel and lower, and daily sales in the range of 1.3 million barrels a day, sources familiar with the deliberations said.

Mexico reportedly sold only 1.1 million barrels a day in January because of the turbulence in the world oil market, which cost it close to $250 million in revenues.

Shortfall of About $9 Billion

Private economists here see an overall 1986 budget shortfall of about $9 billion, more than half of which is tied to the recent drop in oil prices.

Before the price drop, they were expecting the Government's austerity program to cause a recession in which the gross domestic product would shrink 1 percent or, at best, show zero growth. The expectation had been that federal deficit spending, which is creating inflation in excess of 60 percent a year, would be held to about 6 percent of the gross domestic product.

Because of the lost oil revenue, economists now see a far more serious situation. The deficit could grow to more than 9 percent of the gross domestic product, becoming an even more powerful inflationary force. In an attempt to close the fiscal gap, the Government would be likely to raise prices for such federally controlled commodities as domestic petroleum and electricity, further increasing inflationary pressures.

Other austerity measures, such as further cutbacks in Government services and reductions in the heavy sub-

Secretary of State Shultz says Washington is working with Mexico on its debt crisis. Page D23.

Continued on Page D23, Column 4

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sidies that hold the prices of basic food staples at artificially low levels, would also be likely. "But even with the most Draconian measures, they would still be about $5 billion short," a private economist said.

Representatives of some American banks here are saying privately that Mexico is likely to miss its first-quarter and perhaps second-quarter interest payments on the debt. "The scenario I see is that they will miss some interest payments and out of that will come something, a renegotiation, a new plan, something to solve the problem," said the representative of one American bank with substantial outstanding loans in Mexico.

For several months, left-wing groups have been demanding a moratorium on debt payments. Their strident calls have been joined in recent days by others who are more moderate but who see some form of relaxation of Mexico's interest payments as the only solution for the country's situation.

A senior member of the administration of President Miguel de la Madrid has reiterated the President's longstanding opposition to a moratorium. "No one in the Government is arguing for a moratorium," the aide said. "What we have to have is some relief."

Demonstrations Taken Seriously

Last Wednesday, a crowd variously estimated at from 20,000 to 50,000 people rallied at the independence monument in the center of Mexico City demanding a moratorium. A week earlier, a larger group advocating similar demands massed in front of the National Palace. There has been no violence, no angry mobs in the streets, but Government officials are known to take such demonstrations seriously.

Last week, Mexico's foremost labor leader, Fidel Velazquez, who has been a strong supporter of the Government's economic policy, said that, because of the oil price slide, Mexico no longer had the capacity to service its foreign debt. "At this time we cannot pay, we simply cannot pay. We have to attend to the internal needs and give some stimulus to the majority so that they can survive the situation. Without this there will be social problems," he added.

Mr. Velázquez, an octogenarian who rules a large part of Mexico's labor movement and wields substantial political power, had agreed in December to only a 32 percent increase in the minimum wage, despite inflation that exceeded 60 percent last year.

Since Mexico's economic crisis began and annual inflation rates have ranged as high as 100 percent, Mr. Velázquez has agreed to wage settlements far below inflation, saying the worker sector had to make sacrifices in order to assure Mexico's economic future. By some estimates, the Mexican laboring class has seen its real wages slip back to levels of 25 years ago in the three years since the economic crisis first emerged.

Carefully Noted by Officials

The public pronouncements of Mr. Velázquez are carefully noted by Government officials. They paid particular attention to his remarks last week. "What Fidel is saying is that the size of wage increases is no longer the issue," said one Government official. "The issue is more fundamental, the distribution of wealth. Is Mexico's wealth to flow to its people or to world financial institutions?"

Diplomats here say the remarks being made here by officials about the dire situation reflect the Mexican Government's desire for a significant cut in the interest rates it must pay on its debt, which would offset the drop in oil prices and leave the beleaguered economy some breathing room. The implication is that, without a cut in interest rates, a moratorium is the only alternative.

"We know there is a faction in the cabinet arguing for a moratorium, urging President de la Madrid to halt payments," one diplomatic source said. "We are advising them not to do that; that there would be chaos, such things as airplanes seized abroad, bank accounts frozen. It would be a disaster. Some other way has to be found."

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CHRISTIAN SCIENCE MONITOR
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Feb. 11, 1986

Plummeting oil prices push Mexico to the breaking point

By T. Elaine Carey
Special to The Christian Science Monitor

Mexico City

Long lines of cars snaked out of the gas stations in Mexico City recently, looking like a replay of the 1973 energy crisis in the United States.

But unlike their US counterparts of a decade ago, the drivers had panicked over plummeting oil prices, not rising prices and shortages.

As the oil-price war continues, Mexico is suddenly earning much less for its oil exports. The Mexican drivers, guessing that this loss would cause them to pay dearly at home, thronged the gas stations before prices at the pump could go up.

They were both right and wrong. Rumors that the price of gasoline would go up at midnight Feb. 1 proved incorrect. But the Mexicans were right in feeling anxious over the collapse of world oil prices and its ramifications for the economy. In December, Mexico drew up its 1986 budget based on a $24 a barrel price for oil but with contingency plans for a drop to $20 a barrel.

Now the Treasury Ministry is scrambling to do its sums from a base of $16 a barrel. At that low figure, with its exports already slipping in volume, Mexico would earn only $7 billion from oil sales this year instead of the $13.1 billion it had forecasted.

Mexican officials, diplomats, and bankers see Mexico quickly coming to the breaking point in its ability to service its debt and warn that new solutions to the debt issue have to be formulated. They believe that what happens to Mexico will happen to other debtors.

Oil provides Mexico with 75 percent of its export earnings. The cascading price has meant that Mexico's original estimation that it would need $4 billion in new financing in 1986 has jumped to something more like $8 to $10 billion. In 1986 alone, Mexico was scheduled to pay almost $10 billion in interest payments on its $97 billion foreign debt.

"If this was a company instead of a country, it would have been broke a long time ago," said one US banker resident here.

"At $15 a barrel, Mexico needs more money to stay afloat than the banks are going to lend without the intervention of the US government," said another American banker whose bank is one of Mexico's main creditors.

When Treasury Minister Jesús Silva Herzog Flores spoke at a Third World debt conference in London recently, he signaled a change in Mexican attitude. "The limit of our responsibility to our creditors is determined by the responsibility to our people." He did not go as far as to mention the word "moratorium" when talking about the debt, but he sounded more like Peruvian

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INTERNATIONAL

MEXICO from page 9

President Alan García Pérez, who has set a limit to the amount of interest his country will pay the world banks.

Diplomats and bankers here think Mr. Silva Herzog was making it clear that the solutions tried so far have failed.

"We have all the elements [here] we need already for a complete change in the way we look at debt handling in developing countries," said the resident banker.

"It will be the Mexicans who blow the whistle and say the game is over. The Mexicans have the most to lose," he predicted.

"They will have to force it on them [the banks] and I think they are going to have to accept."

Banking and diplomatic sources say Mexico as well as some international bankers are thinking about such measures as:

● Capping interest rates. This means Mexico would declare its willingness to pay, for example, only 5 percent interest instead of the present rate of about 10 percent. The unpaid interest would be added to the principal, but this amount would not be subject to further interest charges.

● Saying Mexico would pay only a certain percentage of what it earns from its exports annually as interest on its loans.

● The banks writing off at least a portion of their loans to Mexico as nonperforming and showing them as a loss on their balance sheets.

● The US government helping either by writing Mexico a check, buying more oil for the strategic reserves or arm-twisting the banks into lending more money.

"We've got all the makings of a major disaster and the way it is going to be averted is for the banks to take a very different approach to the situation with the US government leaning on them to do just that," said one of the US bankers.

The price of a barrel of oil is not Mexico's only oil revenue problem. Diplomats and bankers say Mexico exported only 1.25 million barrels a day in January, a fall of 250,000 barrels. Purchasers of Mexican oil are displeased with the pricing formula used by the state-owned oil company Pemex.

One Western oil analyst summed up the thinking of many oil experts, bankers, and diplomats about what the US will do if Mexico reaches the breaking point:

"You won't know until you have a drowning man and you don't have one yet. But there is a point beyond which the US will not let Mexico slip."

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FEB 5 1986 p.32

Mexico Tells Creditors It Will Need To Borrow $9 Billion This Year

By S. KARENE WITCHER
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Mexican financial officials told creditor banks the cash-strapped country will need to borrow about $9 billion this year to keep its economy afloat, more than twice what Mexico told bankers it would need in December.

Projections then called for Mexico to need about $4 billion this year, with about $2.75 billion coming from commercial banks. The earlier figure was based on an average oil price of about $22.50 a barrel; some oil prices yesterday dipped below $18.

Mexican officials met here yesterday with the group of 13 international banks that negotiates with the country on its $97 billion foreign debt.

Mexican Finance Minister Jesus Silva Herzog was supposed to attend yesterday's meeting, but he canceled for the second time in two weeks. Instead, the bankers were briefed by Angel Gurria, Mexico's chief debt negotiator.

Bankers familiar with yesterday's closed-door, one-day session said the talks were preliminary. They said Mexico's estimate was based on projections of an average oil price of $16 a barrel, the level to which oil prices in the U.S. had fallen yesterday.

However, statements emerging from a meeting in Vienna, Austria, of ministers from the Organization of Petroleum Exporting Countries that a price war is on drove petroleum prices even lower later yesterday. Some analysts are concerned prices may drop even more.

It wasn't immediately clear how much of Mexico's estimated $9 billion in new loans would have to come from the country's 500 foreign creditor banks. Sources noted that some bankers are quibbling with the Mexican figures. A group of bank economists connected with the 13-bank negotiating group will meet Friday to go over the numbers, sources said.

Some banks see room in Mexico's economic projections to trim its borrowing requirement. For instance, they said that unlike many other financially troubled Latin American nations, Mexico in the past has refused to ask official creditors to stretch out payments through the so-called Paris Club.

One banker said that Mexico owes about $1 billion to official creditors, and that postponing those credits would reduce the need for new loans. But Mexico has argued to bankers that it is concerned about losing access to more official credits if it asks to postpone such payments.

While Mexico told bankers yesterday the country will need about $9 billion, one source said the Mexicans indicated they didn't want to borrow such a huge amount because it would balloon their foreign debt burden. But they didn't suggest ways to avoid that course.

At current interest rates, Mexico's 1986 interest bill to all foreign creditors would total about $10 billion. Revenue from oil exports accounts for about 75% of the country's foreign-exchange earnings.

Lower oil prices are likely to lead to lower international interest rates, which would in itself reduce Mexico's annual interest bill. But some economists said any interest rate fall probably won't be fast or far enough to keep Mexico from running out of cash in the weeks ahead. "If we can get interest rates down to minus 2%," quipped one banker. "I think it works out."

Meantime, several economists and lenders tracking Mexico expect the U.S. government to mount an emergency financial package similar to the one it spearheaded in 1982, when Mexico nearly defaulted on its foreign debt.

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JOURNAL OF COMMERCE

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JAN 15 1986 p. 4A

Mexico's New Money Bid Doubted

By WILLIAM A. ORME Jr.
Journal of Commerce Special

MEXICO CITY — Mexico's quest for US$2.5 billion in new commercial loans this year is unlikely to yield any hard currency before June, foreign banking sources here said.

Mexican negotiators had hoped to receive the first disbursement of fresh money from private banks by February or March, the sources said.

In addition to the US$2.5 billion it is seeking from private banks, Mexico is asking for US$1.5 billion this year from government and multilateral lenders, principally the World Bank, and the Inter-American Development Bank.

The U.S. Commodity Credit Corp. has already assigned US$800 million to finance Mexican staple foods imports this year, and "is prepared to go higher if necessary," a U.S. official said.

Mexico is also now negotiating a stand-by loan from the International Monetary Fund that would allow it to draw down some US$800 million in special drawing rights during 1986.

The IMF loan pact is expected by Western diplomats and bankers to be signed by Mexico before the end of February.

But in contrast to previous such loan packages in Mexico and elsewhere in Latin America, the IMF accord will not virtually automatically trigger commercial bank approval of Mexico's loan request, the sources said.

Commercial banks are insisting that Mexico implement further "structural reforms" beyond the fiscal and macroeconomic targets assigned in its IMF agreement, the banker said.

The main factor delaying Mexico's loan request, a U.S. banker involved in the negotiations said, is the growing consensus among bankers that Mexico will again miss its announced economic targets this year.

But the banks are less interested in "percentages and monetary figures than we are in trends, especially in such areas as investment and capital flight," he said.

Growing bank support for applying such "subjective" criteria to Mexico's loan request reflects their feeling that "we have a sick patient here, and if we don't do anything about it we will end up catching the disease," he said.

Western diplomats and bankers say Mexico must take further steps in four related areas before it wins their support substantial new loans: cutting state spending, stemming capital flight, boosting non-oil exports, and keeping exchange rates at a "realistic" or even undervalued level.

Demands for further devaluation and the eventual elimination of the "controlled" peso exchange rate used in most of Mexico's foreign transactions is also "right at the top of the IMF's agenda" for Mexico this year, a diplomatic observer said.

Further complicating negotiations is the refusal of smaller creditor banks to increase their lending here, the banker said.

As in previous fresh loan agreements, all of the more than 500 private banks owed money by the Mexican government are being asked to contribute an amount representing a fixed percentage of their exposure here.

In 1986, this would mean boosting their lending to Mexico by about 3% but several smaller banks "are already dropping out," while Mexico's bigger creditors are resisting pressure to increase their own lending to compensate for the withdrawal of smaller lenders, the banker said.

Without an influx of foreign loans in the first half of 1986, Mexico will be forced to borrow more money internally to finance its budget deficit, Mexican and foreign economists noted. This continued deficit financing could spark even higher inflation and domestic interest rates, the economists warn.

In 1985, with an inflation rate of 64%, legally mandated bank charges and reserve requirements pushed the effective real interest rate for corporate peso borrowers to a staggering 120%, bankers report.

This year, despite the government's announced goal of a 45-50% inflation rate, some corporate treasurers are basing planning on a projected 75% rate. "I haven't ruled out an inflation rate of 80% or even 100% in 1986," one banker said.

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Washington Post, March 4, 1986, p. E3

Mexico Ups Loan Plea $2 Billion

By William A. Orme Jr.
Special to The Washington Post

MEXICO CITY, March 3—Mexico will seek $6 billion in new loans from foreign lenders this year, $2 billion more than it had planned to borrow before oil prices crashed, the Finance Ministry said tonight.

Tonight's announcement marked Mexico's first public disclosure of its 1986 foreign credit request since falling oil prices forced it to scrap its original borrowing plans for the year, which called for new commercial loans of $2.5 billion and $1.6 billion in multilateral and government loans.

Finance Minister Jesus Silva-Herzog and Public Credit Director Angel Gurria plan to travel to Washington Wednesday to discuss the borrowing request with U.S. officials, a ministry official said. The Mexican debt negotiators also have scheduled a meeting Friday with private bankers in New York, he said.

Issued following a meeting between Silva-Herzog and President Miguel de la Madrid, tonight's statement said Silva-Herzog's visit to Washington last week laid the groundwork for "what could become a financial and economic package that would resolve the difficulties of 1986 and offer a basis for a broader-reaching negotiation dealing with the total problem of Mexico's foreign debt."

Denying reports that Mexico will need as much as $10 billion in additional credits to compensate for oil revenue losses this year, the Finance Ministry tonight issued a newly revised version of the country's 1986 balance-of-payments outlook that projects additional nonoil export earnings of $500 million and $1.5 billion less in import expenditures than originally had been estimated.

Declining dollar interest rates will save Mexico another $800 million in hard currency this year, the Finance Ministry now calculates. The ministry statement said Mexico will forgo plans to add another $1.2 billion this year to its foreign reserves, estimated unofficially at about $5 billion.

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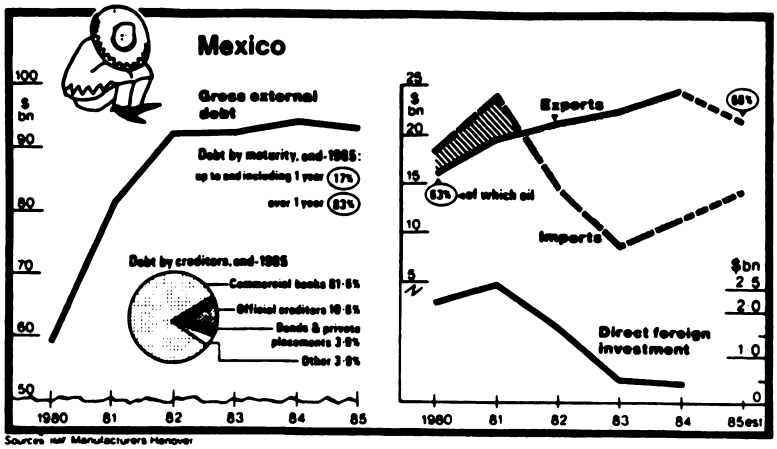
Economist (London), Feb. 8, 1986, pp. 77-78



Sources: Morgan Guaranty; Manufacturers Hanover

Mexico sends Baker's plan back to the drawing-room

The slow progress of Mr James Baker's plan to lend more money to 15 heavily indebted developing countries was tempting American commercial bankers to believe that only a disaster could get things moving. Now they face one—Mexico, one of three countries in the United States treasury secretary's chosen 15 that will be seriously affected by the steep fall in the oil price. (The other two are Venezuela and Nigeria.)

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tive, launched last October, was not designed to deal with this sort of crisis. It proposed that $29 billion should be lent to the 15 countries over the next three years; $20 billion of this from commercial banks, and $9 billion from the international agencies. Mexico's crisis now dwarfs these figures. If Mexico is to stay in the team, Mr Baker will have to rejig them; and Mexico will have to undertake more economic reforms.

In return for new lending, the initiative called on countries to privatise state enterprises; to encourage foreign investment (which has fallen sharply in Mexico in recent years—see chart); liberalise trade; staunch the flight of capital; and take more austerity medicine from the IMF. Mexican negotiators told their creditors' 13-bank steering committee in New York this week that, for political and social reasons, they felt there were precious few tighter notches left on their belt for the IMF to squeeze.

Some bankers think that America's national-security interests and extensive business links with Mexico will be used to justify making the country a special case. These banks fear they will now be leant upon heavily for support—especially in view of President Reagan's promise of help to President Miguel de la Madrid at their Mexicali border meeting last month. Making Mexico a special case could rescue the Baker initiative from the fate of being just another attempted orchestration of a rescue.

But, even before Mexico uncovered its problems, commercial bankers were complaining that the Baker initiative asked them for too much. Mr Franz Lutolf, of the Swiss Bank Corporation, said this week that the big Swiss banks welcomed the way the plan had "led thinking away from austerity to growth", but that "asking the banks for $20 billion in three years is a tall order".

The initiative's much-heralded co-operation between multilateral agencies and commercial banks has run into difficulty. Mr Antonio Ortiz Mena, of the Inter-American Development Bank (IDB), wants some of the new commercial lending to be channelled through the IDB, for projects that earn or save foreign exchange. The commercial bankers don't want that. If a project is viable, but a country's economic condition is becoming more dicey, they would not wish to carry on lending—as the IDB and World Bank do—without mandatory cross-default clauses. These are safeguards the IDB and World Bank refuse to give.

The debtor countries see Mexico's difficulties as an opportunity to point out ever more forcefully that they have never regarded the Baker initiative as generous enough. At the request of Mexico and Venezuela, the foreign ministers of 11 Latin American debtors were due to meet on February 9th in Washington. The threat of joint action on their debts has been around since the group last met in December in Montevideo, but the member countries have recently been striking separate deals.

Argentina, Brazil and even Venezuela have made some negotiating gains with creditors; they will not want to jeopardise these, so a regional announcement that they are all going to limit debt service seems highly unlikely. But if Mexico gets special treatment from the United States, other Latin American debtors will not be satisfied for long with less.

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The Wall Street Journal, October 9, 1985, pp. 1 and 26

Nation in Jeopardy

Mexico Suffers Greatly As Oil Prices Decline But Debts Linger On

Pemex Seems to Be a Giant Hobbled by Rival Firms And by Domestic Politics

The Varied Roles of the U.S.

By Youssef M. Ibrahim
Staff Reporter of The Wall Street Journal

MEXICO CITY—Oil is Mexico's curse and its salvation.

In the past decade, the nation simultaneously became the world's third-largest oil producer and the developing world's second-largest debtor. Oil supplies 70% of Mexico's export revenues and almost half of its government revenues, and it has fueled national pride and prosperity.

But, with Mexico's destiny so dependent on oil, the slide in world prices over the past three years has severely shocked the country. The global glut has forced it to abandon cherished concepts of stability and sovereign policy and merely react to a chaotic market outside its control. The nation's oil industry—its economic base—has been revealed as an unwieldy giant held at the mercy of other oil-producing countries as well as shackled by domestic politics.

Now, a decade after Mexico made its debut as one of the biggest oil producers, many here are beginning to wonder what good all the black gold has done for their country. Inside and outside the government, Mexicans ask themselves whether the country should pump oil just to pay its $96 billion foreign debt—which was borrowed mostly on the collateral of oil wealth. President Miguel de la Madrid labors against the widespread popular notion here that any increase in oil exports "only means the money will go to Mexico's creditors and the petroleum will be dissipated," one senior West European diplomat says.

BORROWED TIME

FOURTH OF A SERIES

An Issue of Fairness

"Our basic policy used to be that oil should support Mexican economic development, but it has become the tail that wags the dog," says Gustavo Rodriguez Elizarrarras, an independent oil consultant. "Right now, the only oil policy we have is to repay our debt. The oil wealth hasn't been evenly distributed, but the debt has—that's unfair." Such an issue obviously concerns highly exposed U.S. and other lenders, some of whom have appointed full-time staffers to do nothing but study the Mexican oil industry.

Mexico's oil policy has been one of its stickiest political issues ever since President Lazaro Cardenas expropriated multinational oil holdings in 1938. After issuing the dramatic nationalization decree, the populist hero exhorted his people to bring their chickens, goats and wedding rings into town squares to contribute to reimbursing the big oil companies for their assets. And today, the Cardenas spirit still hangs over Petroleos Mexicanos (Pemex), the government-owned oil giant that is arguably Mexico's primary instrument of both foreign and economic policy.

In many ways, Pemex is a microcosm of the nation itself: It is saddled with an entrenched, activist labor movement that wields tremendous power based on raw muscle and strong historical roots. It must balance that force with a new generation of U.S.-educated technocrats installed by President Miguel de la Madrid to modernize the state apparatus. And, like Mexico, Pemex regards suspicion of U.S. motives as a basic tenet, always assuming that its powerful neighbor to the north is out to drain the country of its natural resources.

Strategic Resource

Clearly, the U.S. does regard Mexico's oil as a highly strategic resource. Experts generally agree that Mexico's proven reserves of 72 billion barrels of oil and natural gas represent only about half of its true oil wealth. "Mexico is the Middle East next door," says Bernardo Grossling, an adviser to the Inter-American Development Bank in Washington, D.C. "I am convinced they have perhaps as much oil as Saudi Arabia."

Proud of those reserves and caught up in an era of short supply and high prices, President Jose Lopez Portillo—Mr. de la Madrid's predecessor—opened the country's oil spigot full bore in the mid-1970s. He dreamed of Mexican dominance through oil. "You can divide the countries of the world into two types," he often said in those days, "the ones that have oil and the ones that do not have oil. We have oil."

Even after the market sagged, politicians, who preached a jingoistic oil policy in the boom times, have been slow to accept Mexico's loss of control and have given in only in the face of harsh reality. Last summer, for example, when practically all members of the Organization of Petroleum Exporting Countries were discounting their official prices to sell oil in a soft market, only Saudi Arabia, OPEC's leader, and nonmember Mexico stuck by official government prices.

A fierce debate raged between Pemex's top management, which wanted to lower prices, and the government energy ministry, which wanted to hold fast. Meanwhile, the market so deserted Mexican oil that

Please Turn to Page 26, Column 1

Continued From First Page

the country lost half its exports in June and July, about $800 million in revenue. Finally, Mr. de la Madrid sided with Pemex and allowed price cuts. It was a minor shift for the international oil market but a major sea-change for Mexican oil policy.

"The feeling I always get from the Pemex people is that they think it's unpatriotic to lower oil prices," says the president of a major U.S. company that buys oil from Mexico. "They are not at all organized to sell oil in an oversupplied market." But Pemex's general manager, Mario Ramon Beteta, who led the winning side of last summer's debate, insists that Mexico has learned its lesson. From now on, he says, "Mexico will adjust to market conditions because we cannot afford to lose our market share. We do not want another June-July."

Still, even Mr. Beteta—a 58-year-old public servant with more than 25 years' experience in Mexico's central bank and Ministry of Finance—makes it clear that Mexico somehow counts on the world to maintain price stability. Such stability, however, seems even less likely after last week's fractious OPEC meeting, which seemed to clearly portend a plunge in oil prices by December.

Mr. Beteta

Asked about the general expectation of lower oil prices by next summer, Mr. Beteta simply throws up his hands. "Stability is tremendously important to us," he says. "I cannot accept the idea that prices of oil will be at the $20-a-barrel level by next summer. That is not gradual at all. That is abrupt. . . . It is not possible at all to imagine how Mexico can handle [such a fall] without really worsening the general overall economic outlook." (This summer's price drop, combined with the loss of exports from the failure to lower prices, cost Mexico an estimated $3 billion: a $1-a-barrel price reduction costs the country about a half-billion dollars a year.)

Mexico's policy problems are complicated by the absence of a widely held oil culture, such as those found in longtime producing countries. Mexico became a significant oil exporter only in 1977, and until the 1981 oil glut, "our policy was easy," says Rogelio Ramirez de la O, the director general of Ecanal, an economic consulting firm here. "It was a sellers' market, and we were selling."

In Mexico, the media and the public are almost oblivious to the technicalities of oil policy, whereas in Venezuela, an OPEC founder, public debate—loud, fast and furious—rages constantly in the media. Producing countries such as Saudi Arabia, Algeria, Venezuela and Britain hold clearly defined views on their oil futures. The Saudis, for example, want to keep oil prices reasonably low to discourage fuel substitution and take maximum advantage of their huge reserves for the next 100 years. Algeria, with very small reserves, wants to push prices as high as possible to cash in before its oil runs out. In Mexico, no such broad vision is apparent—except for a vague, nationalistic view that oil is a patrimony that shouldn't be squandered or allowed to fall into the hands of the U.S.

"We don't have anything you can call a consensus here," says Jorge Eduardo Navarete, who until recently guided Mexico's international relations with other oil producers as deputy foreign secretary for economic affairs. "You have some people saying we should exploit the reserves immediately and quickly, while others say we should go easy. I, for one, believe we are in the oil business from here to the next century, not just to take advantage of short-term windows of opportunity."

The national impulse clearly was to expand proven reserves as much as possible under the direction of Jorge Diaz Serrano, the now-imprisoned general manager of Pemex during the Lopez Portillo era. But the present administration has reversed that trend. It argues that Mexico's reserves are sufficient to support current oil production of three million barrels a day, which Pemex officials expect to increase only about 300,000 barrels a day over the next three years.

Pemex will continue to limit exports to half its production and to limit sales to the U.S. to half of that—about 750,000 barrels a day, according to Adrian Lajoux, the coordinator of Mexican oil sales abroad. But Mr. Lajoux has been traveling recently, trying to capture new customers in Europe and Japan and hoping to avoid a repetition of last summer's desertion by buyers. "As long as we have uncertainty," he says, "the only way to avoid risk is to have a diversified sales policy."

Touchy Subject

The rigid limit on oil exports to the U.S. is one of the touchiest subjects in U.S.-Mexican relations, even though officials on both sides of the border concede that in a real shortage, Mexico would undoubtedly bend its rules to accommodate the U.S. No one in either government likes to discuss the subject, for fear of pushing it further into the forefront of national issues. Basically, the concern is that if the choice came to selling more oil or not paying the country's foreign debt, popular opinion might well support repudiation of the debt.

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The debate over oil policy goes something like this:

"We should only export petrochemicals, not crude oil," says Heberto Castillo, the president of the leftist Mexican Workers Party and a longstanding Pemex critic. "At the moment, 75% of our oil exports go to pay the interest on debt, mostly to American banks. If we go on like this . . . the U.S. will drive us to bankruptcy, and what will they do in a few years when they have this large tiger next door with millions of inhabitants who don't have a penny left to develop new industries to feed themselves?" It will be pointless then, he says, for the U.S. to say: "What do you mean the tiger died? He owes me money."

On the other side of the debate, Mr. Diaz Serrano believes that limiting sales to the U.S. will eventually come back to haunt Mexico. "Peddling oil is an old art," he says, "and your best customers are always your neighbors. We should sell more, not less to the U.S." The former Pemex manager says Mexico should view OPEC as a competitor and should drop its oil prices now to obtain more sales contracts and thus protection from the inevitable decrease in prices.

Opposition Party's View

In the camp of the most visible—but still largely powerless—political opposition, the National Action Party president, Pablo Emilio Madero, believes that Mexico should work to increase output now with an eye toward expanding market share the moment the oil markets revive. "If we export three million barrels a day over the next nine years, we can pay off the whole debt," he says. Mr. Diaz Serrano also supports greater investment in Pemex. "If we have a dollar to invest," he says, "Pemex is where we should put it, because we've got the oil. Not agriculture or industry."

In the past 10 years, of course, Pemex has received enormous investment capital, which, by all accounts, was used by Mexico's geologists, engineers, planners and workers to do a remarkable job of quickly developing the nation's oil wealth. But, as a popular saying of the Lopez Portillo years put it: "Oil, a gift of the gods, is the temptation of the devil." And, again by all accounts, the devil found plenty of takers within and around Pemex.

The reputation for corruption within the oil industry was so bad that Mr. de la Madrid, through his trusted, longtime colleague, Mr. Beteta, chose to make Pemex a shining example of his "moral renovation" program. Mr. Beteta—a wealthy aristocrat said to have presidential ambitions himself—brought in as many as 5,000 new administrators to audit accounts and monitor transactions.

Internal Strife

The arrival of the new managers—many of them U.S.-educated—has set off a fierce campaign within Pemex by the experienced "petroleos," or oilmen, who contend that the "petufos," or "smurfs," lack the experience to run an oil company properly. But numerous diplomatic and oil-industry officials now say the external operations of Pemex are squeaky clean.

Reform, however, stopped dead at the door of the Oil Workers' Union of the Mexican Republic, Latin America's largest and most powerful labor organization. While Pemex controls its foreign dealings very tightly, internal operations such as drilling, exploration and maintenance are entirely the province of the 50-year-old union.

Informally headed by Joaquin Hernandez Galicia, an almost godlike leader known to everyone as La Quina, the union has amassed its own enormous fortune. In addition to owning supermarkets, stores, ranches, farms, factories, construction and trucking companies, it is legally entitled to a 2% commission on practically all Pemex contracts, including road construction, housing projects, pipelines, schools, shipping operations and oil-platform installations. No opportunity is too small. One consultant, for example, says companies supplying food to offshore rigs are charged $200 for every supply boat—or as much as $20,000 a day.

La Quina

Unusual Benefit

Until last year, the union was entitled, under its labor agreement with the government, to assign 50% of all Pemex contracts, and its companies still land about 20% of the total. Union bosses are generally known to sell jobs at Pemex for highly lucrative commissions.

Messrs. de la Madrid and Beteta tried at first to bring down La Quina by promoting others within the union to erode his power base, but the effort proved futile. With 160,000 members, the union is "twice as big as the army," says Mr. Ramirez de la O, the consultant. "The only way to cow the union is to have a coup d'etat. You actually have to use the army or don't try at all." Other observers say that the administration appreciates the role of Iranian oil workers in bringing down the shah and that no one cares to risk a similar upheaval in Mexico.

Mr. Beteta himself meets with La Quina at least every two months, he says, and it is understood that tolerating some corruption is a price that must be paid. La Quina declined to be interviewed.

"Maintaining the social peace is a creed in Pemex," says Jose Luis Garcia-Luna Hernandez, a Pemex vice director and general director of the Mexican Institute of Petroleum. "You can't push the union to the point of having an explosion."

Accepting Corruption

More important, Pemex managers consider the cost of union corruption tolerable, given the alternative of social and economic chaos. "If all union malpractices were cleaned up today, we could save only about 15% of our cost of production," a senior Pemex official says. "That's not worth a fight." Thus, the oil workers' union has become Mexico's most glaring example of institutionally accepted corruption, which interferes with attempts to bring efficiency and productivity to the nation's largest industrial concern.

While Pemex is squeezed from below by the union, it also is squeezed from the top by the federal government. The government not only used Pemex's oil as collateral for much of the huge debt that it amassed but also pushed the company itself to borrow some $22 billion on behalf of the government between 1976 and 1981.

"We may have used $5 billion of that money, while all the rest was passed to the government," says Mr. Garcia-Luna, the Pemex vice director. "We were used."

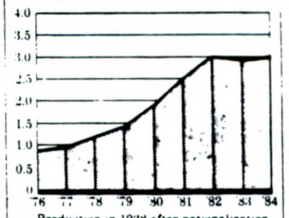
Now, Pemex is again being used, to pay the debt. Accurate figures are hard to come by, but several Pemex officials estimate that of the $16 billion earned by the company last year, $4 billion was retained for operations and exploration, while the rest went to debt service.

"We are the only fat cow in the country," a senior Pemex official says, "and the government is milking it."

The Role of Oil in Mexico's Economy

Oil Production

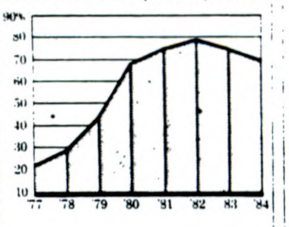
Millions of barrels per day



Production in 1938 after nationalization was 106,350 barrels per day.

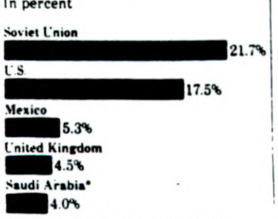
Mexico's Oil Exports

As a share of total exports, in percent



Share of World Output

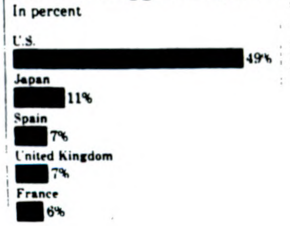
In percent



*Saudi Arabia is currently increasing its production

Mexico's Biggest Buyers

In percent



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The Wall Street Journal, Oct. 1, 1985, pp. 1 and 20

Nation in Jeopardy

Mexico Is Likely to Get Longer-Term Lending If It Accepts Austerity

U.S., IMF and World Bank Consider Emergency Aid, Using Large Banks Only

Benefit of Personal Friendship

By Peter Truell
Staff Reporter of The Wall Street Journal

MEXICO CITY—When Chucho, Miguel and Paul get together in South Korea this week for the International Monetary Fund's annual meeting, they will need better luck than they had while bone-fishing off Mexico's Yucatan Peninsula this past summer.

The three friends—Mexican Finance Minister Jesus "Chucho" Silva-Herzog, central bank president Miguel Mancera, and U.S. Federal Reserve Board Chairman Paul Volcker—got good suntans but not one fish. That leisurely interlude must seem far behind them today.

Last week, Mr. Silva-Herzog made a hasty visit to the U.S. to seek emergency help for Mexico. Now, the three men must sit down in Seoul with other Western financial leaders to work out some solution to Mexico's deteriorating economic situation and its huge $96 billion debt.

MEXICO

BORROWED TIME

SECOND OF A SERIES

The devastation of the recent earthquake compounds Mexico's persistent economic nightmare. Government spending continues unchecked. Exports have plummeted. Money floods out of the country. And rising inflation—already at 60%—crumbles confidence. Already there are fears of hyperinflation if the government simply begins printing money to finance reconstruction after the earthquake.

At home, government figures confirm the worst. Mexico's current-account surplus (the balance of all its foreign transactions) made an incredible dive to just $24 million for the first half of this year, down from $3.4 billion in the first half of 1984, reflecting an across-the-board drop in revenue earned from abroad. Foreign-exchange and gold reserves recently sank to $5.2 billion from almost $9 billion last autumn. While much of the focus has been on foreign debt, domestic government debt will have almost doubled this year in inflation-adjusted terms, and for the first time that debt's annual interest cost—$13 billion by some estimates—will exceed foreign debt service.

Abroad, Mexico fears a further slide in the price of oil, which provides 70% of its export revenue, and an increase in international interest rates (almost all its debt is linked to floating rates).

The Role of Friendship

Although more than $70 billion of Mexico's debt is owed to Western and Japanese commercial banks, the scale of the problem has grown so overwhelming that the U.S. and other Western governments are assuming the role of negotiator with Mexico—as they did in August 1982, when the present international debt crisis began. Friendships, such as those between Mr. Silva-Herzog and Mr. Volcker, may well play a significant role in easing Mexico and the banks through their latest crisis.

The Mexicans have made a strong case for new funds to avert a disaster. If funds don't come through, says Alfredo Phillips Olmedo, the head of Mexico's export-import bank, Banco Nacional de Commercio Exterior S.A., "it won't only be a crisis of major debtors. It will involve much more than the Brazils, the Nigerias and the Argentinas. . . . It's the world financial system that's at stake."

Mr. Phillips's argument makes sense to an increasing number of government officials around the world. Thus, it is increasingly certain that the U.S., the IMF and the World Bank will give Mexico emergency funds and will provide longer-term financial help, provided that Mexico pledges itself to another IMF austerity program. Some bankers suggest new money will only come if it is guaranteed by an institution such as the World Bank. And it is possible that sympathy for Mexico following the earthquake will soften that austerity program.

Jesus Silva-Herzog

Such an austerity program is already being discussed, says Carlos Salinas, Mexico's budget minister. Once the program is pledged, Mexican leaders and senior bankers privately assert, commercial banks will agree to lend Mexico more than $1.5 billion. At a New York meeting of bankers and Mexican officials yesterday, the initial estimate was that Mexico would need $2.5 billion in new bank loans next year. (See article on page 20.)

This time around, the smaller bank lenders, which have kicked and screamed at being corralled into previous Mexican rescues, will probably escape new lending commitments. But the big banks can't afford to desert Mexico.

"It's the 80/20 problem," says a British banker, meaning that the 100 or so biggest bank lenders hold 80% of Mexico's bank debt while the more than 400 other bank

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Continued From First Page

lenders hold only 20%. As Mexicans are fond of pointing out: "Mexico can make Bank of America disappear; Bank of America can't make Mexico disappear." BankAmerica Corp. and several other large bank holding companies have loans in Mexico equivalent to over half their shareholder equity.

Nor can the big Western governments afford to distance themselves from the problem. "We threw [billions of dollars] at Continental Illinois and just made it," says a U.S. government economist of the July 1984 rescue of Continental Illinois National Bank & Trust Co.

So, in one hand, Mexico holds a gun to the head of the financial establishment; with the other, it extends an olive branch.

Mexico's workout solutions have been models for Brazil—which owes more than $100 billion to foreign creditors—Yugoslavia and a host of other debtors world-wide. Mexican officials have helped Argentina, the Dominican Republic and other countries with their debt negotiations. Creditors applauded Mexico for halving imports in 1983 and for dissuading Latin American hotheads from forming a debtors' cartel aimed at repudiation of their debt.

Angel Gurria

The threat of more radical, intransigent leadership both in Mexico and in the rest of Latin America is real enough to give Mr. Silva-Herzog and his colleagues tremendous negotiating leverage. Already, Peru's President Alan Garcia says his country will devote just 10% of its export revenue to meeting foreign interest payments. Cuba's Fidel Castro urges Latin American debtors not to pay their interest, though he continues to pay his. And not so long ago, Mr. Mancera's post at the central bank was held by Carlos Tello—one of Mexico's more potent radical leaders—who nationalized Mexican banks in 1982.

Bankers know that Mr. Tello would be as likely to go bone-fishing with Mr. Castro or Mr. Garcia as with Mr. Volcker. As John S. Donnelly, the vice president here for Manufacturers Hanover Trust Co., puts it: "Thank God for Mr. Silva-Herzog."

The 50-year-old Mr. Silva-Herzog, who is described by his old teacher at Yale, Federal Reserve Board member Henry Wallich, as "a good student," has played a vital role thus far. But unlike the conservative Mr. Mancera—who also studied at Yale under Mr. Wallich—Mr. Silva-Herzog doesn't embrace the austerity and the monetarist rigor of Mr. Volcker and the IMF. The U.S. and the IMF want to force Mexico to cut spending, curtail borrowing and increase exports.

Ironically, although Mr. Volcker is now regarded as Mexico's best friend in Washington, Mexico's debt problems really began in 1979 when Mr. Volcker opened the West's crusade against inflation. His tight monetary policies made the U.S. dollar—and thus international borrowing—much more expensive. With the backing of President Reagan and other Western leaders such as Britain's Prime Minister Margaret Thatcher, the era of cheap commercial money for developing countries was over.

The Mexicans recognized this shift but continued to borrow billions of dollars, finally conceding on Aug. 13, 1982, that the world had changed, when they found they were nearly broke. They had only $200 million left in their central bank. Since that time, Mr. Volcker and the Fed have treated Mexico's central bank almost like a part of the Federal Reserve System—shooting hundreds of millions of dollars into Mexico's reserves on a moment's notice.

Paying Lip Service

Still, Mr. Silva-Herzog and the Mexicans increasingly say the answer for Mexico is economic growth, for which they need huge new loans. As for austerity conditions imposed by IMF agreements, by Mr. Volcker and others, the Mexican attitude is very similar to what colonial governors of 17th century Mexico used to say of orders from Spain: "*Se acepta pero no se cumple*" (it's accepted but it isn't carried out).

"The only definite way is to grow out of the debt problem," says Mr. Silva-Herzog.

Both Mr. Silva-Herzog and Harvard-educated President Miguel de la Madrid are said to believe in a centrally planned economy, with a carefully controlled private sector.

The suave, deep-voiced finance minister—who likes to roar around on a Kawasaki 550cc motorcycle—doesn't spring from an entrepreneurial capitalist tradition. Mr. Silva-Herzog's father—who was a leading leftist intellectual and senior government official—worked closely with President Lazaro Cardenas to nationalize the country's oil industry in 1938.

Because Mr. Silva-Herzog is considered a leading candidate to succeed Mr. de la Madrid as president, he must balance his own pragmatic economic philosophy with the enormous political pressure that has been brought to bear on the Hacienda—as the Mexican finance ministry is known—to find new money for growth.

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Dissatisfaction with the debt burden is aired in popular Mexican newspapers and magazines, which discuss the solutions proffered by Peru's Mr. Garcia and Cuba's Mr. Castro. Street vendors peddle wall posters depicting the Christ-like figure of Mexico bearing the heavy cross of international debt.

Mr. Silva-Herzog isn't the only magnetic figure in this drama. His debt manager, Angel Gurria, is even more cosmopolitan. Brought up near the U.S. border and educated at universities in Mexico, the U.S. and Britain, Mr. Gurria speaks five languages and is almost as at home in the English-speaking world as in Mexico. He especially likes to watch Fernando Valenzuela, a Mexican, pitch for the Los Angeles Dodgers.

Mr. Gurria is something of a champion himself, having flown around the world arranging $20 billion in new loans in just one year—1981. "We did it thinking the thing would turn around," he says.

Now, he flies around the world to oversee Mexico's recent rescheduling of $49 billion of those bank debts and to try to find new loans. Regarded by bankers as the developing world's most skillful debt negotiator, he has advised Costa Rica, Argentina and the Dominican Republic in their debt talks.

'Grow to Pay'

Mr. Gurria echoes his boss's arguments on growth. "There's a new expression here: "*crecer para pagar*," (grow to pay), he says.

On the other side of the table, William R. Rhodes, the chairman of Citibank's debt-restructuring committee, is the banker most often seen by Messrs. Silva-Herzog and Gurria. Bill Rhodes is the international banks' affable debt leader, presiding over committees that deal with reschedulings for Mexico, Brazil, Argentina, Peru and Uruguay—a clutch of countries that among them owe Western banks and governments about $270 billion.

A Citibank employee since he graduated from Brown in 1957, Mr. Rhodes hardly seems to have a life of his own, apart from debt reschedulings. His office is ornamented with snapshots of rescheduling ceremonies, and when he is asked what else he does, he looks lost for a moment, then says that he has back problems and likes to swim a bit. "It's his religion that this thing should work," says Mr. Gurria.

Mr. Rhodes has drawn criticism for the optimistic views he presented of Mexico's prospects earlier this year. But he is more worried now. He and other bankers already are comparing this week's Seoul IMF meeting with the 1982 Toronto session.

In journalist Joseph Kraft's colorful paper, "The Mexican Rescue," he quotes Mr. Rhodes's boss at the time, Citibank's then-chairman Walter Wriston, describing the Toronto gathering: "We had 150-odd finance ministers, 50-odd central bankers, 1,000 journalists, 1,000 commercial bankers, a large supply of whiskey and a reasonably small city that produced an enormous head of steam driving the engine called 'the end of the world is coming.' "

At the Abyss

While Seoul may not be as gloomy as Toronto, it certainly won't be as cheery as the occasions on which the bankers and the Mexicans get together publicly—standing on either side of the abyss—to celebrate their workout agreements. The latest of these was signed Aug. 26 in the sumptuous ballroom of the Pierre Hotel on New York's Central Park.

"The signing stands out as a vivid example of just how far we've come," Mr. Rhodes told a hushed audience. Mr. Silva-Herzog called the rescheduling for 14 years at lower interest rates "more in line with Mexico's debt-service capacity" and urged new credit for Mexico. Banks, he said, would get their interest payments only if they lend Mexico new money.

"Some people say it's blackmail," said Luis C. Pi-Sunyer of Union Chelsea National Bank, after the ceremony. That evening, the Mexicans entertained their bankers with cocktails at the exclusive Racquet and Tennis Club.

Afterward, no one was particularly ebullient. "Everyone knows we'll have to reschedule again, or do something," said Eduardo Legorreta, the head of Operadora de Bolsa S.A., Mexico's largest brokerage firm. A Mexico City investment banker captured the spirit of the moment: "The only test of a restructuring is when you have to do the next one," he observed.

In retrospect, this colossal financial mess all seems to have been created so easily, with hardly any barriers raised against it.

Western banks got into the bind quickly. In the space of 15 years, Mexico's foreign debt grew to its current $96 billion from under $4 billion, and commercial banks lent over $70 billion of this. "They were very smart: we were very stupid," says a representative of a major U.S. lender, looking out the window at a Mexican businessman's personal helicopter skimming toward a rooftop landing pad. "Probably bought with money we lent," he says, smiling.

Flush with Arab oil money, bankers fell over one another to lend to what seemed to be the most promising developing countries—such as Mexico, which itself was in an oil boom. Today, Pemex, the state-owned oil company, alone has $16 billion in foreign debt, about as much as Peru and Ecuador together owe their foreign creditors.

Mexico's geographical proximity and close trade ties to the U.S., along with its political stability, made it a great prospect. Bankers, furthermore, exhibited naive faith in governments, or "sovereign risks" as they call them. About $75 billion of Mexico's debt was lent to government bodies.

William R. Rhodes

Banks also followed other banks. "Citibank or Chase Manhattan is in the deal, so it must be a good risk," was a typical catch phrase in the glory days of big lending here. Yet with all that money in Mexico, few senior bankers in the U.S. even knew who Mr. Silva-Herzog was when Mexico ran out of money in 1982.

By his analysis, the current crisis is round four of a long fight. The first three rounds involved the initial rescue by the U.S. Treasury, the IMF and Western governments; two new loans from commercial banks—one of $5 billion in 1983 and another of $3.8 billion in 1984; and various debt reschedulings. Round four will feature still more new loans.

But while all these restructurings and debt arrangements have been agreed to on the assumption that Mexico would observe an IMF austerity plan, it is clear that Mexico simply isn't swallowing the pill.

Particularly at issue is the government's failure to cut spending and borrowing. This year, the government deficit will probably total 8% of domestic output of goods and services, not the agreed-upon 4%. A recent cut of about 4% in the government's 18.4 trillion-peso budget for 1985 is a "drop in the bucket," says a U.S. government economist, although others say it is at least an important psychological step.

Bypassing Banks

Budgets at state enterprises especially have caused government spending to overshoot. The central bank's attempt to control credit has also largely failed because companies now often bypass banks—whose deposits are heavily devoted to buying short-term government treasury bills.

If Mexico is ever to pay its way out of this mess, everyone agrees, it must increase non-oil exports. Yet despite the recent economic boom in the U.S.—which receives more than 60% of Mexican exports—the country's exports have dwindled alarmingly. In the first half of 1985, the trade surplus totaled $3.9 billion, down from $7.5 billion in the first half of last

As a stimulus, Mr. de la Madrid says he wants to open Mexico's economy to freer competition. But organized labor, protected industrialists, old-line economic nationalists and leftists who fear economic integration with the U.S. present a powerful alliance against any attempt to dismantle trade barriers. And, as Pablo Aveleyra, an economist at Banco Nacional de Mexico, observes: "It's the first time anyone has tried to open up the economy since the Spanish came in 1521."

Many U.S.-based multinationals that profit from the present structure also oppose changes in the economic regime. When IBM was pushing for 100% ownership of its Mexican project, for example, other U.S. computer manufacturers like Hewlett-Packard, which have local partners, lobbied against the move alongside Mexican economic nationalists.

Comfortable Companies

"We've been a closed, protected, comfy group for a long time," says the head of Mexican operations for one Fortune 500 company. "It's going to be a real dash of cold water when they do it, but in the long run, they're going to have to open up some. You'll notice that most of the Fortune 500 is here, most of them make money, and very few have plans to leave."

Private Mexican companies — which themselves owe international banks about $20 billion—also thrive on protected local markets. Some foreign lenders are particularly bitter about what they say is a lack of protection afforded them by Mexico's judicial system in dealing with these private debtors.

One U.S. banker describes a situation in which a large Mexican beer manufacturer holds some $350 million in bank debt but keeps only about $80 million in assets in Mexico. Most of the borrowed money has been placed in the U.S., he says. Bankers tried to put the company into liquidation to force its proprietors to repatriate some of the borrowed money. But they were presented with an antedated bankruptcy filing showing that the company had just sought court protection from its creditors.

Such disputes, though, are really just sideshows. Right now, Mexico's leaders hope they can control events at home, and they pray that events abroad turn in their direction. A $1 drop in the price of a barrel of oil costs Mexico more than half a billion dollars a year, says Mr. Gurria; a 1% drop in interest rates saves the country $800 million a year. But lately, both oil prices and interest rates seem headed the wrong way.

Miguel Mancera

Less Certainty

Predictions come less frequently and are more ambiguous when they arrive. Mr. de la Madrid tells the public that 37.5% of the budget will be devoted to debt service, yet Mr. Salinas has estimated it to others as 55%. Mr. Salinas—who is a rival of Mr. Silva-Herzog's for the presidency—says the economic growth target is 3% to 4% a year, but Mr. Gurria says "the minimum threshold of growth is at the 5% to 6% level."

At his elegant, wood-paneled offices in the National Palace, Mr. Silva-Herzog produces a Mexican children's game to illustrate the state of things. When the small spinning plastic cylinder comes to rest, players must obey the message that lies face up.

The message, which Mr. Silva-Herzog admits he has rigged for such occasions, is *todos ponen* (everybody puts up). That means everybody—Western governments, commercial banks, the World Bank and the IMF—must lend Mexico more money, he explains.

And what will Mexico put up? Mr. Silva-Herzog smiles broadly, but doesn't answer.

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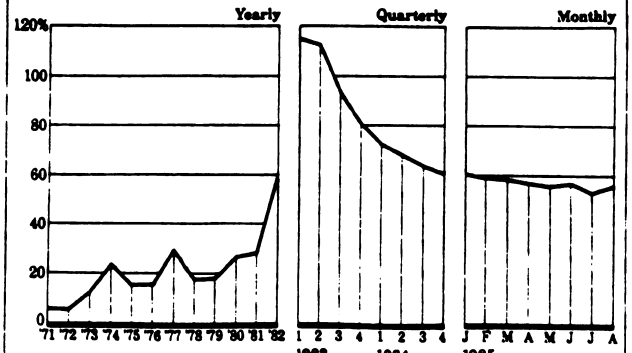
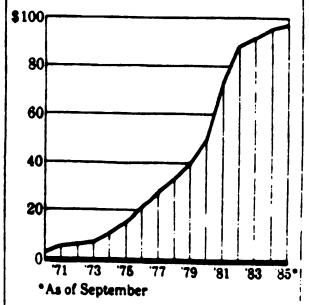
A Close Look at Mexico's Easing Inflation



Source: Banco de Mexico, IMF.

Mexico's Growing Foreign Debt

In billions of dollars



*As of September

Sources: Various, including Morgan Guaranty Trust Co., Banco de Mexico, World Bank, United Nations and others.

The Importance of U.S.-Mexican Trade

The U.S.'s biggest trade partners

Trade volume (exports plus imports) In 1984 (billions of dollars)

Canada	113.5
Japan	84.0
Mexico	30.3*
United Kingdom	27.2
West Germany	26.9

Source: U.S. Department of Commerce

Mexico's biggest trade partners

Trade volume (exports plus imports) In 1984 (billions of dollars)

United States	21.4*
Western Europe	4.1
Japan	2.4

Source: Banco de Mexico

*Different exchange rate calculations and methods of collecting data explain the discrepancy between U.S. and Mexican estimates of bilateral trade.

The Third World's Biggest Debtors

(In billions of dollars)

Brazil	$103
Mexico	96
Argentina	50
South Korea	45
Venezuela	35

Debt Exposure Of Major Banks To Mexico

	MEXICO LOANS (As a percentage of shareholder equity at Dec. 31, 1984)	TOTAL LOANS (In billions of dollars)
Citicorp	47%	$3.00
BankAmerica Corp.	54	2.78
Manufacturers Hanover Corp.	60	1.98
Midland Bank PLC (Including Crocker National Corp.)	95	1.85
Chase Manhattan Corp.	44	1.75
Chemical New York Corp.	56	1.43
Lloyds Bank PLC	58	1.37
Bankers Trust New York Corp.	56	1.30
Bank of Montreal	57	1.30
Royal Bank of Canada	32	1.20
J.P. Morgan & Co.	37	1.20
First Chicago Corp.	48	.93

NOTE: Major French, Swiss and Japanese banks with large loans to Mexico, such as Societe Generale, Swiss Bank Corp. and Bank of Tokyo, don't as a rule disclose their total loans in particular countries.

Source: Donaldson, Lufkin & Jenrette, published company reports

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Wall Street Journal, July 15, 1985, p. 3

Mexico Hosts Latin American Meeting On Debt Trouble, Signaling New Stance

By S. Karene Witcher
Staff Reporter of The Wall Street Journal

Mexico, battered by falling oil prices and a deteriorating domestic economy, quietly called a meeting of Latin American countries to consider ways of easing its own $95 billion foreign debt and more than $250 billion of other Latin American foreign debt.

The meeting appears to signal that Mexico wants to take the lead, or at least become an active player, in pushing the industrialized nations, their bankers and their bank regulators to do more to alleviate the debt crisis. That's in contrast to Mexico's previous stance on the foreign debt issue.

Latin American debtor nations have been meeting among themselves for more than two years with their most serious effort at unity coming in June 1983, when they formed the so-called Cartagena group at a meeting in Cartagena, Colombia. The group of 11 countries, including Mexico, has met several times since, but so far industrialized nations have generally snubbed the group's pleas for a political dialogue and more dramatic solutions to the debt crisis.

Viewed as a Pawn

Mexico's latest move is all the more significant because Mexico has been viewed by some of its fellow debtors as a pawn of the U.S. Federal Reserve Board; Mexico's role was thought to be to discourage the region's other debtors, such as Peru and Argentina, from pursuing more radical courses such as unilaterally reducing their annual interest payments to banks.

Representatives from about 10 Latin American countries were cloistered for most of last week in Oaxtepec, a small resort town near Mexico City. Sources familiar with the meeting said the invitation came directly from Mexico's president, Miguel de la Madrid, and that the meeting was continuing over the weekend. The Mexican president's meeting comes at a time when Cuba's Fidel Castro is trying to organize a rival meeting of Latin American debtors to discuss alternative solutions to the debt burden.

The course Mexico decides to pursue on its own debt problems could have widespread implications for U.S. banks, which are owed about $27 billion by Mexico. Among the biggest lenders are Citibank, with about $3 billion, Bank of America, with $2.7 billion, and Manufacturers Hanover Trust Co., with $2 billion.

In Washington, a senior Federal Reserve official, who asked not to be identified, said the Fed is aware of the meeting but indicated the Fed isn't worried about the outcome of the talks. He called the meeting "informal and unofficial" and said, "We don't see anything special or unusual about this."

But one Latin American finance official familiar with the Oaxtepec meeting said it signaled a "change in (Mexico's) approach" to the foreign debt. He believes Mexico fears falling oil prices will lead to a situation "like 1982" when Mexico nearly defaulted on its foreign debt. He said that for the past two months or so, Mexican financial officials have been "reanalyzing and making a new diagnosis of the global (debt) problem."

Reached over the weekend at the gathering in Oaxtepec, Guillermo Castaneda, a Peruvian who possibly will be a cabinet minister in the newly elected center-left government of Peru, said it was "quite a surprise" that news of the meeting had leaked out. He said he was only a "guest" at the meeting and added, "You'll have to talk with the Mexicans." After saying he would call one of the organizers to the phone, he left the receiver off the hook and promptly exited the premises, the hotel telephone operator said.

Mexican finance minister Jesus Silva Herzog didn't return telephone calls. But an aide of Angel Gurria, Mexico's chief debt negotiator, said Mr. Gurria has been in Oaxtepec most of last week meeting with "several people from Latin America." One source familiar with the meeting said representatives from Brazil, Venezuela, Colombia, Peru, Panama, Ecuador and the Dominican Republic were among those who attended. Notably absent was Argentina, which in the past has repeatedly threatened to take some unilateral action against its creditors.

It's unclear why Argentina stayed away. But several sources noted that Buenos Aires is trying to implement a dramatic overhaul of its economy, and its financial officials are reluctant to leave the country. Moreover, Argentina might not want to be associated with a meeting that might displease its creditor banks just as it is trying to get bankers to agree to $4.2 billion in emergency bank loans.

Last week Mexico cut its oil prices in an effort to boost sales, which account for about 7% of its export earnings. June exports were only about half of Mexico's target of 1.5 billion barrels daily. Moreover, revenue from non-oil exports has declined from a year earlier; the government hasn't been able to stem capital flight, and inflation is exceeding government projections.

The deteriorating economy has tarnished Mexico's image as the star performer of the current debt strategy implemented by the International Monetary Fund and the Fed to contain the international debt crisis. That strategy calls for the debtor countries to submit to economic austerity in return for IMF credits and for banks to postpone principal payments and grant new loans.

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The Christian Science Monitor Tel. July 19, 1985

Mexico wants Latin debt load shifted to wide political arena

By T. Elaine Carey
Special to The Christian Science Monitor

Mexico City

Mexico, praised by American banks and the International Monetary Fund (IMF) for managing its debt crisis, is finding its austerity regimen extremely difficult — and is looking for a way out.

At the invitation of Mexican President Miguel de la Madrid Hurtado, representatives of 10 heavily indebted Latin American countries convened in Mexico last week.

Western bankers and economic analysts here believe the meetings may have been the beginning of a campaign, led by Mexico, to get international bankers and the United States government to treat the debt issue as a political problem whose burden would have to be shared by all participants rather than just by debtors.

Mexico had previously resisted suggestions from other Latin debtor nations that such an approach be taken. But after seeing its own economy grow worse by the month, it is making noises that suggest it has begun to consider that tack.

'The situation is lousy,' a Western banker says. 'The formula for paying back [the debt] isn't working.'

While in Washington recently, Mexican Secretary of Commerce Héctor Hernández Cervantes said restrictions on international commerce and falling oil prices are creating "intolerable" conditions that will prevent Mexico from fully complying with its international debt obligations.

Businessmen are echoing that sentiment. The president of the National Chambers of Commerce, Nicolas Madahuar Camara, commented that not only did Mexico need to get public finance under control and cut public spending, but a global economic policy had to be established to allow Mexico to restructure its economy.

Some weeks ago, Mexican Foreign Secretary Bernardo Sepúlveda Amor met here in Mexico with US Federal Reserve chairman Paul Volcker.

Both Western bankers and Mexicans close to the government said Mr. Sepúlveda broached the idea of a political settlement to the debt crisis, sounding out the Americans on behalf of the Latins. Volcker rejected the idea flatly.

Sources in the financial community believe the Mexicans were not as enthusiastic about the idea then as they appear to be now. The change seems to have come about with the deterioration of the Mexican economy.

After weeks of the peso sinking against the dollar in the commercial exchange houses, the government eliminated one of its exchange rates — the "free" rate (which was actually controlled by the government).

To get dollars, the government allowed banks to sell dollars at a rate set by market supply and demand.

Because economic indicators for Mexico were negative, the demand for dollars was intense. Altering the exchange rate caused about a 35 percent devaluation of the peso against the dollar.

Mexican oil sales dropped to 800,000 barrels a day last month, one of the lowest levels in years. Responding to this, Mexico lowered oil prices to lure customers back.

Even so, economists and sources close to the government reckon Mexico has lost hundreds of millions in oil revenues this year.

Although the trade balance for the first five months showed a surplus of $3.53 billion, that was a drop of 43 percent from the same period in 1984.

Imports grew. Western bankers and economists believe capital flight this year is about the same as it was for the last few months of 1984, which was about $1.2 billion.

Some industries, especially tourism, have reacted favorably to the exchange-rate alteration. Others, such as pharmaceuticals, which depend on imports, say the new rate will pinch them seriously.

Industry and business are concerned that very little money will be available to them as credit because of government consumption of most of the credit available and its efforts to stem inflation. Also, capital flight is taking away money that might otherwise be invested.

"The situation is lousy," a Western banker says. "The formula for paying back [the debt] just isn't working." But he adds, "I doubt it will get as bad as 1982," when Mexico was on the verge of bankruptcy.

At the end of last year, the Mexicans stimulated the economy to create growth. That triggered inflation and a currency crisis. That in turn sparked a lack of confidence, capital flight, a devaluation, and an undoing of some of the progress made since '82.

The alternative — no growth and no new jobs for a rapidly expanding population that is already terrifically underemployed — is no more appealing, given the years of austerity that Mexicans have endured.

"They are too boxed in," the banker says. "They are so bound to the IMF that one bad month puts them back in the soup. There is no room to maneuver. It is just too much debt for any [repayment] formula to work. No matter what they do, they end up shoveling their money out to the banks."

Now apparently the Mexican government is trying to fight being "boxed in" by bumping the problem from the economic to the political level.

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THE WALL STREET JOURNAL THURSDAY, SEPTEMBER 26, 1985

Nation in Jeopardy

Mexico's Future Grows Even More Incalculable After the Earthquake

Prior Plan to Spur Economy Now Seems Incompatible With Speedy Rebuilding

Some Fear Disorderly Change

By JOHN HUEY and STEVE FRAZIER
Staff Reporters of THE WALL STREET JOURNAL

MEXICO CITY—All bets are off on the future course of Mexico.

Even before the horrible human tragedy and economic devastation of last week's earthquake, the world's 13th-largest economy lurched along in a state of undeclared disaster. A showdown with U.S. and other foreign banks holding $96 billion in unpayable Mexican debt seemed inevitable.

Mexico's leaders governed on borrowed time. At home, their austerity measures required painful long-term sacrifice from a constituency eager for short-term relief; abroad, they feared that a further decline in oil prices coupled with a rise in interest rates would make it impossible even to pay the interest on the foreign debt—much less obtain badly needed new credit.

MEXICO

BORROWED TIME
FIRST OF A SERIES

When last week began, the apocalyptic vision worrying the Western financial order was: Mexico fails to pay its interest; major U.S. banks are forced to swallow huge losses; other Latin debtors—who look to Mexico for leadership—tumble. Reflecting these fears, and a sag in world oil prices, the peso hit a record low last Wednesday.

Then on Thursday, Mexico City suffered its worst disaster since Hernan Cortes destroyed it in 1521, and the scope of Mexico's problems moved beyond measurement. In some ways, the tragedy pushed the country through a sort of economic "looking glass," making its difficulties almost impossible to evaluate in real terms. black is no longer black, white no longer white.

"This really is likely to be a watershed in the country's history," says Alan Stone,

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a senior analyst at Kissinger Associates Inc., the Washington consulting firm. "One of the consequences of the earthquake is that it probably shortened even further the time that the president has to show results."

As tragic as the quake was, it could have been worse. Most of the country's industrial plant held together, and Mexican authorities moved quickly to assure social order. Also, it seems likely that the disaster will temporarily forestall pressure from creditors. Nevertheless, the earthquake must be assessed within the crisis context in which it struck.

President Miguel de la Madrid had already been giving grave warnings about Mexico's debt. "The domino theory must be kept in mind," he said in an interview with this newspaper shortly before the earthquake. "If a heavy piece falls, the whole game can collapse." His finance minister, Jesus Silva-Herzog, was equally blunt. Asked what strategy he would take if oil prices continue their decline he made a motion of washing his hands of the problem.

These two Ivy-League-educated technocrats, along with others of similar background like central bank president Miguel Mancera, have charted a course of long-term recovery that calls for a greatly reduced public budget and the opening of competition in key industries. It is difficult now to see how such a plan is compatible with the speedy reconstruction of the world's most populous city—already gasping for services before suffering damages estimated in the tens of billions of dollars.

Miguel de la Madrid

In all this, the U.S. holds a stake of inestimable importance. Some Washington analysts, such as Mr. Stoga, believe that U.S.-Mexican relations should rank just behind superpower politics and maintenance of the Western alliance as Washington priorities. Yet, as Mr. Stoga notes, "there has been a tendency to look at Mexican problems only when they blow up." Even with Mexico threatening the Western banking system's stability, it has received attention that rises and falls with interest rates—or earthquakes.

While the U.S. gropes to embrace its prickly neighbor as an ally, Mexico, for its part, is bound by history and political tradition to oppose the U.S. in public forums. The U.S Marine invasion of Veracruz and the "Halls of Montezuma" of the Marine Hymn are part of Mexico's living history, kept alive by a Museum of Intervention in Mexico City. A recent editorial on the front page of Mexico City's leading newspaper, Excelsior, began: "The United States is the worst political problem in Mexico," and went on to denounce the U.S. ambassador, economic policy and the press.

The visceral anti-U.S. sentiment permeates Mexican policy in the cause of independence, often at great cost. Fearing domination by the U.S., Mexico refuses to join such developed-world forums as the General Agreement on Tariffs and Trade although it talks about doing so, and it erects barriers to foreign venture capital. Having borrowed to finance grandiose development, Mexico now finds itself resentful at sliding back into Third World status. Instead of developing into an independent industrial power, it now depends on the prices of natural-resource exports and the whims of foreign bankers to survive.

"There is absolutely a real need to orient this country to the external world," says Othon Ruiz Montemayor, head of Monterrey's Grupo Visa, a huge beer and food conglomerate.

Uncooperative Intimacy

Amid all the rhetoric, though, Mexico remains intimate with the U.S. Its moneyed classes, even high-ranking government officials, continue to turn their pesos into dollars and invest them across the border. Still, cooperation even in the simplest humanitarian matters is sacrificed. When a natural-gas facility exploded on the outskirts of Mexico City last fall, the Mexicans rejected U.S. Embassy offers to fly badly burned victims to special treatment centers north of the border.

And again, after last week's earthquake, Mr. de la Madrid's first response was to say that Mexico could handle the disaster on its own, even as rescue workers tried to dig through the rubble with their bare hands and pickaxes. When the government finally realized that specialized foreign equipment might help save lives, the foreign minister offered the convoluted explanation that Mexico wasn't asking for help but that it wouldn't refuse it, either.

The earthquake will divert attention in the short term from Mexico's other problems. The country now has legitimate reason to claim that its most pressing problems are beyond its control. But even before, it had begun to blame its troubles on the external devil of oil prices. Asked recently how much of Mexico's problems were its own fault and how much the outside world's, Mr. Silva-Herzog, the finance minister, said: "17.9%, but I'm not saying whose percentage that is."

Many doubted the extent to which the government had control even before the earthquake. "This is one of those dramatic moments in history when you can see the direct consequences of dependency and development," said Lorenzo Meyer, a political scientist at the prestigious Colegio de Mexico, days before the quake. "We aren't in control."

Now the job of taking control and guiding this huge, complex nation through perilous straits falls squarely on Mr. de la Madrid, a man, by most accounts, of small ambition.

When he served as minister of planning and budget in the previous administration of President Jose Lopez Portillo, for example, it is said that he complained of being frozen out by a ministerial rival, then asked to be awarded a lifelong goal: the governorship of Colima, Mexico's smallest state and the birthplace he left at age three. Instead, Mr. Lopez Portillo named him to be the next president. Just a few years ago, says one detractor, "He was the guy businessmen went to see when they had foreign-exchange problems."

His leadership style leans toward technical planning rather than crisis management. It reflects his graduate studies in public administration at Harvard, according to one adviser, who says that Mr. de la Madrid administers his cabinet meetings like a corporate board of directors. "His style is managerial and almost devoid of traditional politics," says Rogelio Ramirez de la O, a respected economic consultant and a close observer of the administration. "He hates politics so much he even forbade applause at his *informe* (state-of-the-union speech). But he is also a man who doesn't want to take any risks. He wants everything for free."

Supporters Worry

Even so, Mr. Ramirez believes that Mr. de la Madrid should be credited for all the mistakes he hasn't made—for not making wild promises raising expectations, for example—and argues that a man of caution could prove to be exactly what is needed.

While most critics fault Mr. de la Madrid more for errors of omission than commission, even supporters worry about how long a president with little political charisma can sell a platform consisting solely of "reduced expectations."

His marked failure to woo Mexico's alienated middle class and growing urban poor into the political base of the ruling Institutional Revolutionary Party (PRI), or to capture the imagination of any existing factions, is viewed as a serious lapse. Such worries are really aimed at the general direction that the PRI has taken since Luis Echeverria was named president in 1970. Messrs. Echeverria, Lopez Portillo and de la Madrid each have run for only one public office: the presidency. Thus they brought no loyalty from any of the party's powerful popular constituencies into office.

They are all viewed as creatures of Mexico's swollen bureaucracy, rather than as persuasive political leaders. One resentful politician calls Mr. de la Madrid and his cabinet "the first generation of North Americans born in Mexico."

In Monterrey, where business disaffection with the system has been growing steadily with each new crisis, industrialists say attempts by Mr. de la Madrid's predecessors to solve problems only created new ones. Having shocked the nation with its bloody repression of the 1968 leftist student movement, the PRI launched a steady, long-term expansion of the state and unleashed rapid, poorly financed economic growth. In a more convulsive gesture, when Mr. Lopez Portillo's dreams of Mexican glory through oil began to crumble, he nationalized the banking system, claiming he had been betrayed by bankers who shipped money abroad.

Business Lacks Faith

The Mexican business class prefers Mr. de la Madrid to either of his two predecessors, but they lack faith in tangible progress. "I think what they say about how to get out of the crisis is quite acceptable; they just don't know how to do it," says Eugenio Clariond, a PRI member and president of Monterrey's Grupo Imsa, a metal-products conglomerate. He, like others, fears disorderly change. "Unless there is a change from within the system," he says, "there will have to be change from without. How long will the Mexican population tolerate this?"

Apparently uncertain of its own political capital, the de la Madrid administration has been slow to implement reforms that it deems necessary—such as trimming the bureaucracy, lowering protectionist barriers, opening up domestic competition and

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reining in the powerful oil workers' and teachers' unions—but that would anger entrenched interests.

Top bureaucrats, for instance, recently received 50% pay increases while their underlings received single-digit raises. And because of the administration's failure to break the powerful oil workers' union leadership's notorious corruption, Mr. de la Madrid's so-called "moral renovation" is considered a flop. In spite of such gestures as opening a Museum of Corruption in the former Mexico City police chief's grotesquely extravagant mansion, no one really believes that corruption has abated.

'Paralyzed by History'

(The collapse of shoddy construction in the earthquake has aleady spotlighted corruption as a possible major villain in the disaster, and the reconstruction effort will pose a major test of Mr. de la Madrid's control of public money.)

Regarding the administration's inability to implement its well-intentioned reforms, Mr. Meyer, the political scientist, says: "They are paralyzed by the history of the country, by the history of the government and the history of the system. They can't move in a dramatic way, and the times require dramatic moves. There is no technical answer to what is happening."

No one, of course, knows what the solution will be. In Washington, centrists share the Mexican government's view that the PRI has every likelihood of somehow continuing its remarkable 56-year record of stability and rule by consensus. But a minority group of right-wing analysts—concentrated in the National Security Council—has turned the attention of such powers as CIA director William Casey to the possibility that a stagnating PRI could be losing its grip on Mexico altogether.

The White House also bears tremendous resentment toward Mexico for its coziness with the Sandinista regime in Nicaragua. At one time, according to sources in the intelligence community, the CIA developed a covert-action program aimed at pressuring Mexico, but there is no evidence that it was ever implemented.

Mexicans still believe they are the target of U.S. destabilization efforts. They blame critics within the Reagan administration for such events as a leak to columnist Jack Anderson of an unsubstantiated report—which Mr. de la Madrid vehemently denied—that the Mexican leader was shipping money to a Swiss bank account.

For now, though, a moderate view seems to prevail in Washington. Even after being pressed to come up with as tough a report as facts would support, a recent assessment by the CIA set the chances of a complete breakdown of Mexico's system at only 20%. And though U.S. ambassador John Gavin is viewed in Mexico as an "interventionist devil," he has been a moderating influence on the White House.

For his part, Mr. de la Madrid's unspecific optimism about the future came through strongly in the Journal interview. "If circumstances worsen, we could very well have problems," he said. "But it must also be taken into account that at every stage in its history Mexico has been able to find the right path and the right solutions in its own particular way."

These solutions, he added, "sometimes appear strange when viewed from abroad if the history of the country and the enormous complexity of Mexican society are not known in depth."

A Country in Cross Section

Mexico: A look at Its People, Its Commerce, Its Resources and Its Role In the International Economy

Size and Population

Land Mass

Mexico is the 13th largest country in the world. With 764,000 square miles, it is larger than all of Continental Western Europe and about three times the size of Texas.

Population Rank (1984)

1	China	1.1 billion
2	India	747 million
3	Soviet Union	276 million
4	U.S.	236 million
5	Indonesia	162 million
6	Brazil	133 million
7	Japan	120 million
8	Pakistan	99 million
9	Bangladesh	98 million
10	Nigeria	92 million
11	Mexico	77 million
12	W. Germany	61 million
13	Vietnam	58 million
14	Italy	57 million
15	United Kingdom	56 million

Mexico's 1985 population is 78,900,000. In 2025, Mexico will have an estimated 154 million people and will be the 10th most populous nation. Japan will drop to 11. The country's 3.5% growth rate in the 1960s slowed to 2.6% in 1984.

Median Age

Mexico	18.4 years
U.S.	32 years

Infant Mortality

Live births not surviving one month, per 1,000 births

Mexico	53
U.S.	12

Source: United Nations

Trade and Debt

Balance of Payments

	SURPLUS
First half 1985	$ 3.9 billion
1984	7.47 billion
1983	6.8 billion

Current Account

Trade plus certain unilateral transfers

	SURPLUS
First half 1985	$24 million
1984	3.4 billion
1983	2.8 billion

Total Foreign Debt

Brazil	$ 103 billion
Mexico	96.5 billion
Argentina	50 billion

Source: Banco de Mexico

Energy Resources

Mexico ranks fifth in oil reserves, after Saudi Arabia, Kuwait, the Soviet Union and Iran. Iraq is sixth. The U.S. is seventh.

Mexico is the third-largest oil exporter to the non-communist world after the United Kingdom and the Soviet Union. Saudi Arabia currently ranks fourth.

	OIL RESERVES (billion bbls)	GAS RESERVES (trillion cu. ft.)
Soviet Union	63	1,450
Mexico	43.6	77
U.S.	34.5	198

	OIL PRODUCTION* (million bbls/day)	NET OIL EXPORTS (million bbls/day)
Soviet Union	12.4	3.375
Mexico	3.01	1.5
U.S.	10.38	0

*Includes crude oil, shale oil sands and natural gas liquids recovered separately.

Standard of Living And Migration

Per Capita Income

GNP per capita in 1983 dollars for selected countries. (Mexico's $2,240 is relatively high, but only 9% of all income is shared by 40% of the population. By comparison, in Bangladesh, the poorest 40% share 17% of total income.)

U.S.	14,110
W. Germany	11,430
Japan	10,120
Mexico	2,240
Brazil	1,880
Nigeria	770
China	300
Bangladesh	130

Migration

Mexico is the biggest source of legal and illegal migration to the U.S.

	1984
Legal migration from Mexico	57,557
Illegal immigrants apprehended	1,169,000

Housing

	1970	1980
Homes with water	61%	71%
Homes with electricity	59	75

Literacy

For those in population who are 10 years of age or older

	1970	1983
Illiterates	34.9%	11.9%
Completed primary school	24.9	31.9
Completed secondary school	9.4	22.8

Source: World Bank, INS, Mexican education ministry

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Washington Post
October 27, 1985 p. A21, A30

Mexico Starts Demolition Program

Political Aftershocks Of Earthquake Felt

By William A. Orme Jr.
Special to The Washington Post

MEXICO CITY, Oct. 26—With the aid of scores of strategically placed explosives and the expertise of U.S. demolition specialists, an earthquake-damaged apartment building collapsed at noon today in a chalky cloud of concrete dust.

The first of many such planned explosions here, today's blast represented the beginning of "an attempt to remove the obstacles blocking a return to normality" in the city, one high-level Mexican official said.

The government had repeatedly postponed the decision to proceed with the dynamiting of condemned buildings "to avoid panicking the public" and "out of respect for the familes of the dead," he said. Another two buildings in the same public housing complex are slated to be destroyed Sunday and dozens of other damaged structures will be demolished in coming months using the U.S. explosives techniques that had not been employed before in Mexico, government officials and U.S. diplomats said.

Registering 8.1 on the Richter scale and instantly toppling more than 400 buildings in the old downtown area of the capital, the Sept. 19 earthquake is now estimated by the government to have left about 9,500 dead, said the official, requesting anonymity.

Incomplete census records and the unregistered flight from the city of former residents make earthquake casualty figures "imprecise of necessity," the official said. Unpublished government estimates indicate that the final death toll might slightly exceed 10,000, "but it will not be much higher," he said.

"I don't think we will ever have an exact number," he said.

Although no official estimate of the total number of victims has yet been released, authorities have reported the positive identification of 4,800 recovered corpses. More than a thousand unidentified bodies were buried and another 3,500 people who lived or worked in the central city area remain listed as missing, officials said yesterday.

The Mexican government also has refrained from estimating the earthquake's economic impact. In a report issued last

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week, the U.N. Economic Commission for Latin America placed the value of the buildings and public services wrecked by the earthquake at $3.59 billion and said the earthquake's disruption of normal industrial and commercial activity had cost the Mexican economy another $425 million.

The U.N. report, the first comprehensive survey of the earthquake damage to be published here, said the bulk of the reconstruction costs, including the replacement of $1.16 billion in wrecked school and hospital facilities, would have to be borne by the government.

Despite this unanticipated budget burden, the government has disappointed its leftist and labor critics here by not demanding emergency low-cost loans or interest relief from its foreign creditors.

Private foreign banks agreed after the quake to postpone for six months the collection of $950 million in principal payments, while the International Monetary Fund gave Mexico a special $300 million disaster credit. But Mexican finance officials and international bankers agreed that the country's financial needs would be met not with concessionary loans but through fresh commercial credits secured by a new IMF-supervised austerity plan.

Opposition to the government's cautious debt negotiation strategy, which already was becoming widespread within the ranks of the ruling party, though rarely publicly voiced, was catalyzed by the earthquake into an open, broadly supported political movement, Mexican analysts say. Resentment against the burden of continued debt servicing in a period of acute recession, expressed since the quake with increasing vehemence in Congress and the press, is now widely seen as the major political challenge at the midpoint of President Miguel de la Madrid's six-year term.

So far, the administration has stood its ground. Last Wednesday, as several unions affiliated with the progovernment Labor Congress joined tens of thousands of other demonstrators marching through the city demanding a moratorium on debt payments, Finance Minister Jesus Silva Herzog warned another powerful government-linked labor group that a unilateral payments suspension would leave Mexico isolated and cripple the country's long-term economic development.

Political aftershocks are still being felt five weeks after the earthquake. Several top city officials were fired last week in apparent reprisal for the perceived disorganization of the earthquake rescue and reconstruction effort. Demands mounted for the resignation of de la Madrid's minister of ecology and urban development, who in an earlier official capacity a decade ago was responsible for the structural inspection of a major city hospital that collapsed in the quake.

And in what many observers say could prove to be the most important political consequence of the quake, opposition groups and the governing party are courting militant new citizens' associations representing the homeless and residents of damaged inner city neighborhoods. These groups already are launching a campaign for the direct election of Mexico City's mayor, now appointed by the president.

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THE WALL STREET JOURNAL MONDAY, SEPTEMBER 23, 1985

Mexico Is Certain to Need Big Increase In Foreign Loans Due to Earthquakes

MEXICO CITY – Even before last week's tragic earthquakes, estimates of Mexico's needs for new foreign loans were rising.

Now, with about 3,500 dead and unofficial estimates that the death toll could be many times that as victims continue to be unearthed from hundreds of collapsed buildings, economists say those needs clearly will balloon.

Mexican officials say it is too early to tell how much relief and reconstruction will cost. But they fear the nation will be unable to rebuild the battered core of Mexico City without finding new ways to ease the burden of Mexico's already immense $96 billion foreign debt.

In recent weeks, Mexican officials have warned bankers that, without sufficient new bank loans, interest payments on Mexico's debt mightn't be met in full. And economists say that because Mexico will have to divert precious foreign exchange to pay for imports for reconstruction, such as telecommunications equipment, the pressure to limit debt payments to commercial bankers is likely to increase.

Prior to the earthquakes, Mexican financial officials had said the country needed $2 billion to $3 billion in new loans next year, and some bankers had said the figure probably was closer to $5 billion. Mexican officials had said they expected about half the new loans to come from commercial banks; the rest would come from government sources and multilateral institutions such as the World Bank.

While bankers in Mexico privately say the earthquake increases the possibility the international lending community will lighten terms on the debt, Mexican central bank officials insist Mexico won't take advantage of the disaster to ease its economic austerity program.

"It would be a strange somersault of logic to say that the medicine we were taking before the disaster is no longer any good," says one government financial source here.

In any case, economists say that in light of the human and economic tragedy here, it will be harder for international bankers and the International Monetary Fund to pressure Mexico.

Bankers are counting on foreign aid from governments and loans from multilateral institutions such as the World Bank to meet a big portion of the financing gap Mexico faces. Indeed, the World Bank is stepping up disbursement of about $300 million in loans that previously were approved for various projects. And a World Bank official said the bank has indicated it would make other new emergency loans available.

The possibility of IMF distress loans for Mexico was discussed yesterday in New York by finance ministers of five major industrialized nations. But U.S. Treasury Secretary James Baker said after the session that no decision was taken and no amounts given.

It will be a "good excuse" for the U.S. government to pump money into Mexico without being accused of bailing Mexico out of its financial straits, says Komal Sri-Kumar, an economist who specializes in Latin America. "The government may be able to send in capital disguised as earthquake aid."

"If they (the Mexicans) handle this well it could work to their advantage," one senior U.S. banker argues, because it will open new financing opportunities and could make it easier for President Miguel de la Madrid Hurtado to push through controversial legislation for long-term economic structural changes.

The disasters struck as the IMF was preparing to suspend emergency credits – part of a three-year, $3.4 billion program – because Mexico didn't comply with the stipulated economic targets. However, bankers and economists already are speculating that Mexico is likely to be forced into agreeing to a new 12 to 15-month IMF program that will open the door to loans from commercial banks and the World Bank. And economists say the IMF might be less stringent on economic targets in any new program, especially on the government budget deficit, because of Mexico's rebuilding needs.

Ironically, a burgeoning government budget deficit was a major reason for Mexico's failure to comply with its IMF accord. The country hasn't been able to staunch capital flight, inflation is rising and a weakening oil market is cutting export income and driving the Mexican currency to a record low against the U.S. dollar. Now, one immediate task is to restore normal banking operations and shore up confidence to keep even more desperately needed capital from leaving the country.

To make matters worse, Mexican officials expect a drop in foreign-exchange earnings from tourism, an important consideration since Mexico's official reserves already have fallen by one-third this year. Damage to major beach resorts like Acapulco and Ixtapa was reported as slight, and most hotels in Mexico City remain open. But Mexican tourism officials fret that U.S. television coverage of smoking, flattened hotel ruins will depress the coming winter season. Five Americans have been confirmed dead out of a total of 130,000 Americans living in Mexico and another 4,500 vacationing at the time of the quakes.

For now, Mexico, a proud, nationalistic nation, insists it will continue to meet its foreign obligations and cancel nonessential spending plans to divert money to reconstruction.

Despite Mexican officials' insistence they will hold the government budget deficit down, economists say that will be difficult; massive reconstruction programs usually result in large government expenditures. One economist estimates that such spending will help push inflation past 70% this year from about 60% last year.

The increase in foreign debt that Mexico's earthquake-related loans will produce may make some creditor banks balk at granting new loans. That, in turn, could increase the burden on the largest lenders, who have the biggest stake in Mexico's financial health.

Economic Growth

At the same time, however, the reconstruction will foster economic growth. Although the Mexican economy was moving along at a 7% clip earlier this year, recently announced budget cuts were expected to slow that growth, perhaps producing a flat second half. But Mexico could show 5% growth this year and unemployment will fall, both political pluses for the de la Madrid administration.

At least one banker who tracks Mexico believes the earthquake damage could make it politically easier for President de la Madrid's administration to accept a new IMF accord, which will be crucial to repair the damage and fuel economic growth.

In recent weeks, Mexico quietly has been polling its major creditor banks to see how much those banks would be willing to contribute in new loans. In addition, Mexico is counting on at least $300 million a year for the next three years from the World Bank to support a program of trade liberalization. The liberalization measures, which entail replacing many import licenses with tariffs, were sparked by the need to boost non-oil exports and curb inflation caused by inefficiently produced local goods.

Any new World Bank loans come on top of bank financing for specific projects, which in the past three years has averaged $600 million annually.

U.S. Disperses Aid To Earthquake Victims

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – The Reagan administration responded quickly to the Mexican government's limited initial requests for earthquake assistance. Officials said the U.S. is ready to provide major economic aid if the Mexicans request it.

Responding to Mexico's highest immediate priority – saving those who might be buried alive under the rubble – the U.S. dispersed search-and-rescue and demolition experts and three firefighting spray helicopters with support personnel. Other U.S. aid requested by Mexico and being shipped there included a military field hospital and other pieces of heavy rescue equipment.

U.S. officials said privately they believed that Mexico initially made only limited requests in part because of its policy of showing its independence from its giant northern neighbor.

Elliott Abrams, assistant secretary of state for Inter-American affairs, said Congress passed a joint resolution Friday stating that the U.S. should provide short-term disaster relief and longer-term reconstruction aid if it is requested. "If more money is needed, we have a very strong message from Congress that they would be quite receptive to a request on our part," he said.

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Office of U.S. Foreign Disaster Assistance

Situation Report No. 17
Wednesday, October 2, 1985
4:00 p.m.

MEXICO - EARTHQUAKES

Data

Date: September 19, 1985 (7:18 a.m. local time)
September 20, 1985 (7:40 p.m. local time)

Areas Affected: Mexico City, the states of Puebla, Oaxaca, Michoacan, Guerrero, Morelos, Colima, Mexico, and Jalisco

Dead: 5,600, according to the National Emergency Commission; unofficial estimates are 9,000 or higher.

Injured: 30,000

Bodies Recovered: 1,641

Missing: 3,500 (of which 2,000 probably are still under rubble)

Homeless: Estimated 50,000 homeless of which 23,000 are in shelters, 9,000 are in the streets, and the remainder are with friends or relatives.

Damage: Extensive damage to the central section of Mexico City and to the state of Michoacan reported. The southern state of Jalisco has been declared a disaster zone.

General Situation

-- An earthquake registering 8.1 on the Richter scale jolted the southwestern Pacific coast of Mexico and an extensive area of the interior at 7:18 a.m. local time September 19. The quake's epicenter was located 25 miles (40 km) off the Pacific coast, about 250 miles (400 km) south of Mexico City.

-- A second major quake of Richter magnitude 7.5 struck at 7:40 p.m. local time on September 20. The tremor's epicenter was located in the same general area as Thursday's quake. (Magnitudes of both quakes were upgraded by USGS on September 25.)

-- At least 71 aftershocks have been registered since the major quake of September 19.

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-- President de la Madrid has prohibited the use of explosives in the demolition of buildings for the time being to give maximum opportunity for the rescue of survivors.

-- The Mexican President created a special committee to study the causes of the earthquake and to propose civil defense programs that would go into effect in emergency situations.

-- There are 217 emergency shelters in Mexico City with a reported capacity of 50,000. 23,000 people are now being taken care of in 158 of these shelters. An additional 9,000 are counted as living in makeshift shelters on sidewalks and parks close to their destroyed homes and apartments.

-- Mexico City's authorities are planning to install a limited number of temporary housing camps for about 2,000 families. Each camp would hold 100 to 200 families and be equipped with a communal kitchen and washing and sanitary facilities. They will be built to house the families for at least several months, and perhaps over a year.

-- A mechanism has been set up to assist voluntary agencies in the shipment of appropriate disaster relief materials. Lic. Fernando Serrano Migallon, who is coordinating international assistance to the Federal District, can facilitate the clearance of flights and customs.

Assistance Provided by the United States Government (USG)

-- On September 20, U.S. Ambassador to Mexico John Gavin declared that a state of disaster exists in Mexico. Funds from the U.S. International Disaster Assistance account were made available for emergency assistance to the earthquake victims.

-- On the evening of September 19, in response to a televised request for assistance, the U.S. Embassy provided bandages, blankets, pillows, flashlights, and batteries to the Mexican disaster relief authorities.

-- OFDA has convened a 24-hour emergency working group to monitor the situation and coordinate USG response from Washington, D.C.

-- A task force on the Mexican earthquake was established in the State Department, Washington, D.C., and worked around the clock to respond to inquiries on the well-being of U.S. citizens in Mexico. The task force was discontinued on September 27.

-- In response to the GOM's request, the USG deployed a 5-member search-and-rescue team from the Bureau of Mines, the Mine Safety and Health Administration, and Westinghouse Corp. This team has assisted GOM authorities in detection and location of people

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-- buried in the wreckage. The team arrived at 3:00 p.m. local time on Saturday, September 21 aboard a U.S. Military C-141 aircraft. Demolition experts from the Bureau of Mines and private companies arrived via commercial aircraft on September 21 and 22 to assist the GOM with the demolition of unsafe buildings.

-- Another rescue team consisting of 4 search-and-rescue dogs, 4 handlers, and 2 support personnel were also transported aboard the U.S. Military C-141.

-- 3 U.S. Forest Service firefighting/spray helicopters with support vehicles and 27 personnel arrived at 11:55 p.m. local time on September 21 on a U.S. Air Force C-5A cargo plane.

-- The Office of U.S. Foreign Disaster Assistance (OFDA) dispatched an 8-member multi-disciplinary team to assist the U.S. Embassy assess the damage, determine the appropriate USG response, and coordinate USG relief response with other donors. The Federal Emergency Management Agency (FEMA) assembled a 10-person team of volunteers from 2 private construction companies, the Corps of Engineers, and the Dallas Department of Public Works to assess earth-moving and heavy equipment needs. 2 firefighters from the Dade County Fire Department accompanied these teams. They arrived at 8:51 a.m. local time on September 22.

-- In addition to these groups of experts, the Department of Defense (DOD) sent 2 HF radios with appropriate antenna (minibeam) and 2 radio operators, a shipment of 1,000 safety protection masks, and 10 small generators from DOD stocks. These teams and supplies arrived at 11:00 a.m. local time Sunday, September 22.

-- A second rescue team of 9 dogs and 11 handlers arrived in Mexico at 1:40 a.m. on September 23 via a DOD flight from Travis Air Force Base. In addition, the DOD airlifted 100 5-gal. water cans, 6 portable water pumps, 12 power saws, 200 pairs of leather gloves, 600 sleeping bags, and 4 portable heavy-duty generators. The U.S. Forest Service sent 20 50-foot ropes, 2 100-foot ropes with remote hooks, and 12 cargo nets aboard the same flight.

-- For OFDA, the DOD transported 5,000 body bags, 4 water trailers (on loan), and radio equipment aboard a flight from Richmond, which arrived in Mexico on September 23, at 3:05 a.m. local time. The radio equipment consists of 2 HF radios (on loan) with a 6-person Air Force team, as well as 4 base stations and 2 repeaters accompanied by two Air Force communications specialists, and 52 hand-held radios.

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-- The First Lady, Mrs. Nancy Reagan, traveled to Mexico City on Monday, September 23, with the Administrator for the Agency for International Development, M. Peter McPherson, and the Assistant Secretary of State for Inter-American Affairs, Elliott Abrams, and others. Mrs. Reagan personally conveyed the sympathy and solidarity the American people feel for Mexico and the victims of the disaster. On behalf of the U.S., Mrs. Reagan contributed $1,000,000 to the National Finance Bank (NAFINSA) for the Mexican disaster relief effort.

-- A plane following the First Lady carried an Airlift Control Element (ALCE) consisting of forklifts and 17 personnel to assist in offloading emergency relief supplies coming into Mexico City Airport.

-- On September 23, the U.S. Embassy in Mexico City convened a meeting of private voluntary agencies active in Mexico and representatives of the private sector in order to coordinate resources and programs. Present at the meeting were representatives of Partners of the Americas, CARE, Salvation Army, Alas de Socorro, Mission Aviation Fellowship, Proteccion Civil, Universidad Anahuac, Asociacion Mexicana de Rescate, DESMI, National Baptist Congregation, PAHO, Mercke, Sharp & Dohme, and Citibank.

-- OFDA sent 24 3,000-gal. water tanks and 120 rolls of plastic sheeting from its New Windsor, Maryland stockpile for shipment to Mexico. In addition, 2,000 respirator masks, 20 empty acetylene gas bottles, 20 empty oxygen bottles, and 120 pairs of leather gloves were also delivered. All the materials arrived at 4:35 a.m. local time September 24.

-- A 5-member team of firefighters and paramedics with life-saving equipment from Dade County, Florida is assisting the GOM relief operation. The team arrived in Mexico on a commercial airline flight at 6:35 p.m. local time on September 23. They were equipped with 5 hydraulic rescue apparatus and were immediately dispatched to various sites.

-- An A.I.D. Regional Housing Officer arrived at 4:20 a.m. local time September 24 to assist the OFDA Assessment Team in shelter assessment.

-- A bilingual medical supply specialist is advising the OFDA multi-disciplinary team on medical supply issues. This specialist arrived at 9:10 p.m. local time, September 23.

-- 5,000 wool blankets, 2,400 cots, and 11 water tanks from OFDA's Panama stockpile were transported by the Military Airlift Command in 2 sorties on September 24.

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-- Six generators, 8 portable light sets (on loan), and 2 technicians were airlifted to Mexico by OFDA on a C-141 on September 24 and arrived at 4:30 p.m. local time.

-- A New Mexico Air National Guardsman went to Mexico on a volunteer basis to help the U.S. Embassy with mechanical problems; his services have proved to be very valuable and his stay has been extended for 10 days.

-- DOD airlifted 9,000 lbs. of construction equipment from Zachary Construction Co. from Kelly AFB in Texas to Mexico. The shipment arrived about 6:45 p.m. local time, September 25.

-- 2 U.S. Forest Service "hot shot" crews (41 members total) with 2 support buses and equipment were sent from Norton AFB in California and arrived in Mexico 5:30 p.m. local time on September 25.

-- The U.S. Embassy reported that as of September 26, over 200 USG-sponsored relief personnel had been dispatched to assist the GOM in the earthquake relief effort.

-- OFDA is working closely with the Pan American Health Organization to coordinate private response to medical equipment requests.

-- The A.I.D. Command Center set up in Mexico City is coordinating all the various relief teams including demolition teams, search and rescue teams, and disaster assessment teams. It is also supervising a 24-hour receiving, warehousing, and distributing operation of relief supplies and equipment.

-- The U.S. Embassy in Mexico City has set up an Airport Coordination Office and is dealing closely with the Mexican military authorities as well as civil authorities.

-- The U.S. Ambassador met with the Regent, the Governor of the Federal District of Mexico, and the representatives of the Foreign Relations Secretariat to discuss how the U.S. can better define needs as rescue operations continue.

-- A U.S. Army forensic pathologist arrived in Mexico on September 26 to assist GOM authorities.

-- A shipment of 74 3,000-gal. stave water storage tanks from DOD stocks arrived in Mexico City at 8:00 p.m. local time on September 26.

-- 100,000 additional disposable breathing masks arrived aboard a C-130 on September 26.

-- Continental Cargo Development Group transported 35 AN/PRC-77 radios with batteries and carrying accessories from the DOD depot in Lexington, Kentucky They arrived at 9:10 p.m. local time on September 27.

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-- 6,000 A.I.D. pressure sensitive labels for labelling all USG-sponsored relief supplies arrived in Mexico on September 27.

-- An oxylance concrete cutter and a technician arrived in Mexico on September 27. Magnesium rods for the concrete cutter arrived in Mexico at 9:30 p.m. local time September 28 by commercial aircraft.

-- 81 3,000-gal water tanks were located in England, transported to Dover, Delaware AFB, and arrived in Mexico City at 9:45 p.m. on September 28.

-- 20,004 2.5 gal.-water jugs arrived in Mexico at 7:30 a.m. local time on September 29 via commercial carrier.

-- 80 drums of HTH (for water purification) arrived on the same flight as the 81 water tanks.

-- 13 rubber water tanks of various sizes were procured in Boise, Idaho and arrived in Mexico at 9:00 a.m. on September 29.

-- 2 water purification units, 47 3-inch high volume gasoline water pumps, 12 4-inch pumps, and hoses which OFDA procured commercially arrived in Mexico at midnight on September 30.

-- The relief effort has moved past the emergency phase. Depending on GOM requests no more than two weeks of emergency operations remain.

-- U.S. rescue teams are in the process of returning to the U.S.

-- The DOD communications team and equipment returned to the U.S. October 2.

-- OFDA procured two distilled water stills which were transported to Mexico via Continental Cargo Development Group October 4.

-- OFDA approved the cost for local construction of 100 3,000-gal. water tanks.

Prospective OFDA Actions

-- OFDA has procured 20 water leak detectors with meter modules and rechargeable batteries. Transport to Mexico is being arranged for sometime in late October.

-- 3 additional water buffaloes are being located for shipment to Mexico.

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U.S. Private Donations

-- The Adventist Development and Relief Agency (ADRA) provided 5,000 wool blankets which were transported on a DOD airlift on September 24, and a shipment of food, combined value of $50,000. ADRA also donated $125,000 for food and shelter supplies to be purchased locally. Total: $175,000.

-- The American Chamber of Commerce in Mexico has collected 25,000,000 pesos for earthquake relief and expects to gather a total of 600,000,000 pesos. Total collected $74,338.

-- American Friends Service Committee mounted an appeal and pledged $25,000. A team was also sent to the disaster site.

-- The American Red Cross (ANRC) sent an assessment team whose leader presented a check for $250,000 to the head of the Mexican Red Cross Society. In addition, the ANRC dispatched 3 cargo planes containing medical supplies specifically requested by the Mexican Red Cross to deal with the trauma and injuries incurred by earthquake victims, including antibiotics, intravenous tubing, and plastic casting. The ANRC will also transport spontaneous donations received from local Red Cross Societies across the U.S. Total: $257,000.

-- Americares sent 65,000 lbs. of antibiotics, blankets, and hand tools. Total cost estimated at $750,000.

-- A Bechtel Corporation 3-person engineering team will assess earthquake damage to bridges, dams, and tunnels in the outlying earthquake impact area. The team arrived in Acapulco on September 24 and traveled by car to Mexico City during which they evaluated any tsunami effects on the region. Total: $10,000.

-- Biolabs Inc., donated 100 chlorine test kits and 70,000 DPT #1 free chlorine test tablets for use in water purification. Transport was provided through Continental.

-- California Office of Emergency Services dispatched 8 firefighters with power saws to help rescue trapped survivors. The group arrived in Mexico at 12:45 a.m. local time on September 26. The state of California also sent an additional 12 firefighters aboard a California Air National Guard aircraft scheduled to arrive on the morning of September 27. Total: $250,000.

-- CARE sent a 3-member team with $100,000 for short-term emergency relief and launched an appeal for donations on September 20, and is also establishing a water supply system in rural areas.

-- The Catholic Archbishop of Los Angeles has donated $100,000 to church officials in Mexico City.

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-- Catholic Relief Services (CRS) sent an assessment team and donated $77,175 in cash.

-- Church World Service (CWS) has sent a representative to make an on-site assessment and has launched an appeal. CWS plans to focus on the longer-term effort at the request of Mexican churches. Total raised $10,000.

-- Continental Cargo Development Group has volunteered to deliver relief supplies on a space available basis. Total: $175,000.

-- Feed the Children sent a 27-member medical team on September 24 at the invitation of Juarez Hospital, and 2 truckloads of food. Estimated value $200,000.

-- Food for the Hungry International has collected $700,000 worth of medical supplies and medicines in the U.S. to send to Mexico and has already started 3 medical and food distribution centers close to the disaster area. Total $720,000.

-- Ford Motor Company sent two planeloads of medical supplies (3,500 lbs.). Estimated value: $50,000.

-- Friends of the Americas is sending 10,000 relief boxes containing personal toiletry items valued at $300,000. The commodities are being transported in 10 shipments via Continental Cargo Development Group.

-- General Motors Corporation donated $100,000 to the American Red Cross.

-- The City and County of Los Angeles responded to a request from their Sister Cities' counterpart in Mexico City for an array of tools and emergency rescue supplies. These materials were transported to Mexico via Mexicana Airlines on September 24. Additional rescue tools and equipment were sent on September 25. A third flight carrying more equipment, including extension cords, concrete saws, plastic water bags, and a water-purifying system , arrived on September 26. 10 backyard swimming pools of 3,000-gal. capacity each will be procured and tested for their efficacy as water storage containers. Estimated value: $590,500.

-- Lutheran World Relief gave a grant of $200,000.

-- Map International is airlifting $1,000,000 worth of medical supplies to arrive on September 24.

-- The Mennonite Central Committee dispatched an investigation team to evaluate the situation. Value unknown.

-- Mercy Sky Lift has provided a light aircraft from Los Angeles to carry relief supplies. Value unknown.

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-- A National Academy of Sciences and Earthquake Engineering Research Institute 7-member team is being sent to coordinate with local experts for possible follow-up rehabilitation planning. They arrived in Mexico on September 24. Total: $20,000.

-- A 5-member National Bureau of Standards and U.S. Geological Survey team is flying down to provide technical engineering assistance to the GOM and to inspect damaged buildings and evaluate performance of engineered structures. The team arrived in Mexico via commercial airline at 12:25 p.m. local time on September 24. Total: $15,000.

-- Olin Matheson Company has donated 100 tons of HTH tablets for water purification purposes. Transport was provided by Union Pacific Railroad.

-- The Pan American Development Foundation has sent $500,000 worth of medical supplies and assorted tools.

-- Partners of the Americas established a Mexican Reconstruction Fund to be used for rebuilding and rehabilitation projects at the community level. Partners also sent an international disaster expert as part of a OFDA's multidisciplinary disaster assessment team. Value unknown.

-- The Sacramento Fire Department donated equipment valued at $10,000.

-- The Salvation Army provided 500 people to assist in the rescue effort. Salvation Army crews are helping with the removal of rubble and have provided tools, picks, and shovels. A special medical team equipped with bandages, splints, and casting materials was sent to Mexico. The Salvation Army's program - consisting of 14 feeding stations, 14 housing stations, and counseling services - is fully engaged in the relief endeavor. Approximate value $250,000.

-- San Antonio Mayor Henry Cisneros flew to Mexico City on Saturday, September 21 to determine what kind of assistance Texas could provide. The city of San Antonio provided a planeload of supplies, including pick axes, shovels, and small tools. The Texas Governor's office sent a private plane to Mexico City September 24, carrying 17.3 tons of hardware supplies, medical equipment, blankets, sheets, water in plastic bottles, and torches and goggles. Total: $85,000 + 100,000 pledged.

-- San Bernadino County is sending a 7-person bilingual team to assess the assistance San Bernadino might provide. The team will include a building inspector, an operations specialist, a public works specialist, and others and will arrive in Mexico on Saturday September 28. Value unknown.

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-- Save the Children Federation (SCF) sent $100,000 to Mexico City to develop a community-based shelter and health project.

-- Texas Rep. Kika de la Garza arrived in Mexico on September 23 with medicines. Value unknown.

-- Union Pacific Railroad has offered to provide free transportation by rail to Mexico of required commodities. In addition, Union Pacific has contributed 2 trailerloads of potable water in containers and will continue to deliver 2 trailerloads daily at least through the end of September. Total value of this contribution is estimated at $60,000.

-- The Washington State Department of Emergency Management in Olympia has donated 120,000 surplus face masks at a cost of $90,000.

-- World Concern has sent antibiotics. Value unknown.

-- World Relief International has sent personnel to assess the damage. Value unknown.

-- The World Society for the Protection of Animals has provided veterinarians and medicines to combat rabies and animal-related problems. Value unknown.

-- The World Vision Relief Organization (WVRO) sent a 4-person team and donated picks and sledge hammers. Value unknown.

TOTAL: $8,103,796

Assistance Provided by the International Community

-- The government of Algeria sent 4 C-130s loaded with food, blood, and a team of search and rescue experts.

-- Action D'Urgence International has sent a 6-member relief team with 2 search dogs.

-- The Government of Argentina sent a special charter carrying 16 doctors and 28 tons of relief supplies, including 3,500 blankets, 100 tents, medicines, plasma, and cots.

-- The Government of Australia has donated $210,000 for the earthquake victims' needs.

-- Australian PVOs have donated a total of $45,773

-- The Austrian Red Cross and another Austrian PVO, People's Aid, gave $114,400 in cash.

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--An aftershock measuring 5.0 on the Richter scale occurred at 9:53 p.m. local time on September 27. There have been no reports of damage.

-- Mexican media reports indicate that domestic telephone service is functioning at almost normal capacity, but problems with international service continue. Telegraphic service, both national and international, has resumed. The State Oil Company's (PEMEX) extensive communications system has been placed at the disposal of the Communications Ministry.

-- Mexico City (population 18 million) has sustained considerable damage, particularly in the old sections of the city. Assessment reveals that 400 buildings were totally destroyed, an additional 700 were badly damaged and will have to be pulled down, and 57 buildings are on the verge of collapsing.

-- According to the Metropolitan Emergency Commission, the location and recovery of survivors trapped under collapsed buildings continues to be a priority, as is the removal of bodies from the wreckage.

-- There is leakage from both drinking water lines and waste water lines. Groups of people were observed trying to extract cupfulls of water from broken water mains in the street.

-- Though most fires have been extinguished, broken gas mains continue to pose a serious hazard to the populace.

-- Utilities were reported to be about 65% operational. Full restoration of electrical power was expected on September 26.

-- The city's medical facilities have also not escaped harm. Mexico City's Medical Center has suffered considerable damage. Hospital Juarez, another major medical facility, partially collapsed. In-city hospitals suffered further damage from the second quake and relief personnel were attempting to evacuate patients as new injured were arriving. The main maternity hospital was evacuated because of extensive damage.

-- Preliminary information indicates that damage to areas other than Mexico City is much less than feared. The town of Ciudad Guzman, located 75 miles south of Guadalajara, sustained major structural damage and has reported 36 persons killed and approximately 560 injured. The seaport of Lazaro Cardenas, a town of 60,000 inhabitants, also suffered substantial damage and reports over 300 people injured. In Zihuatanejo, the site visited closest to the quake's epicenter, 3 people were killed, 1 was injured, and 25 buildings sustained major damage. Both Ixtapa and Manzanillo report only minor damage. Cuernavaca, Acapulco, Michoacan, and Colima all report no Americans listed among the dead or injured and minor structural damage.

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-- On September 28, U.S. rescue crews and medical advisors determined that survival was unlikely past that date, and the search and rescue effort was closed down.

-- On the evening of September 25, Mexico City Mayor Aguirre Velazquez invited dog teams and their handlers from six foreign countries to the National Palace for a brief ceremony in appreciation for their heroic work.

-- The U.S. demolition team has been working closely with the Mexican authorities in surveying buildings which will likely need to be demolished.

-- Actual demolition of damaged buildings will not start until early or mid-October because of the possibility of finding more survivors or bodies and the time-consuming preparations for demolition. Buildings five stories or less should not be imploded, but rather demolished by traditional methods.

-- The amount of theft and/or diversion of relief supplies has been an infinitesimally small percentage of the total aid pouring into Mexico.

-- Unofficial estimates place the total homeless at 50,000, about 0.3% of Mexico City's population.

Identified Needs

-- Potable water is a critical need. Water pumps and water purification chemicals may still be needed. Estimated population in need of water supply and improved disinfection is 3-5,000,000. (However, many of these people did not have adequate safe water prior to the earthquake).

-- A preliminary list of shelter, kitchen, washing, electrical, and sanitary equipment has been informally provided to the U.S. Embassy in Mexico City and is being transmitted to PVOs.

-- The U.S. Embassy in Mexico has also received a request from Mexico City's Mayor for information on prefabricated or rapid on-site residential building systems available in the U.S. This is being passed to the Department of Commerce.

-- Food is not needed; the food available in Mexico City is being distributed fairly effectively. The agricultural sector has not been affected.

-- Heavy equipment needs will be defined only after a detailed assessment is made by technical experts.

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Action Taken by the Government of Mexico (GOM) and Local Red Cross

-- The GOM responded quickly to the exigencies of the situation. President Miguel de la Madrid declared the Federal District a disaster zone and appointed Mayor Ramon Aguirre Velazquez as head of a metropolitan disaster assistance and coordination commission. The Secretary of Defense declared a state of emergency and activated the DM-3 National Emergency Plan.

-- On September 20, President de la Madrid appointed the head of the Secretariat of Government (Secretaria de Gobernacion), Manuel Bartlett, as Rescue and Assistance Coordinator at the national level.

-- Though the government has not officially appealed for international assistance, the office of the Secretariat of Government announced that a national fund (Fondo de Reconstruccion) has been established to receive donations, both domestic and foreign. Donations will be used primarily for reconstruction of hospitals and schools.

-- Mexico City's government has allotted 500 million pesos for rescue activities.

-- Fire, police, and medical services are reported to be working to their capacity to meet the needs of the situation. Some 50,000 Mexican troops, police, and rescue volunteers are helping to rescue thousands of survivors trapped beneath the rubble.

-- President de la Madrid requested the services of experts in detecting location of bodies in rubble, as well as specialists in building demolition.

-- The Defense Secretariat announced the deployment of 3,000 men from other military regions to Mexico City to help in the relief work.

-- The Mexican Red Cross has 4 large and 18 medium permanent medical posts throughout the disaster zones. Doctors and paramedical personnel are working out of 25 ambulances in operation 24 hours a day. More than 100 additional RC ambulances are transporting the injured to hospitals. More than 3,000 volunteers have been working full-time at the disaster sites and at RC headquarters.

-- About 400 RC volunteers offered their private homes as shelter for homeless victims. Schools, universities, and other institutions are currently serving as temporary shelters for the homeless. Excellent local effort has resulted in contributions of food, clothing, and medicines that more than cover the immediate needs of the displaced.

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-- The Government of Canada announced it would allocate at least $700,000 for earthquake relief.

-- Contributions through Caritas:

Austria	$135,600
Belgium	$15,800
West Germany	$31,700
Hong Kong	$5,000
Italy	$50,000
Macau	$12,500
Netherlands	$28,130
Spain	$55,000
Switzerland	$38,540
United Kingdom	$29,000
Canada	$22,800

-- The Government of Cuba sent a planeload of sanitation materials, medicines, and vaccines on September 22.

-- The Government of Denmark gave $99,009 to the GOM.

-- The EEC donated $379,500 in cash.

-- The Government of Finland contributed $339,000 for the earthquake victims.

-- The Government of Israel reported that a "Haga," a civil defense unit of 5 officers, departed for Mexico on September 21. The next day an Israeli Air Force plane delivered 35 rescue workers and special rescue equipment.

-- The Government of Italy dispatched a plane with 80 tons of relief supplies, including medicines, 40 tents, 1,000 blankets, and six vehicles.

-- The Government of Japan donated a cash grant of $2,500,000 to the Mexican relief effort.

-- The Japanese Red Cross is sending 2,000 units of blood for transfusion.

-- The League of Red Cross and Red Crescent Societies (LORCS) dispatched a team to Mexico to assess the situation. LORCS also reports that cash donations for the earthquake victims from national member societies has exceeded $1,000,000.

-- Medecins Sans Frontieres (Belgium and the Netherlands) sent an 8-person medical team with 2.5 tons of plaster bandages, 5 tons of IV fluid, 10 hospital tents, and other medical supplies.

-- The Government of New Zealand donated $135,135 in cash.

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-- Contributions through Red Cross Societies:

Iceland	$2,174
Italy	$10,526
Netherlands	$31,746
New Zealand	$2,702
Norway	$91,240
Sweden	$241,545
United Kingdom	$14,205
United States	$250,000

-- The Swiss Disaster Relief Unit sent a team of rescue specialists with disaster dogs, blood plasma, tents, sleeping bags, radio equipment, and kitchen utensils.

-- The Swiss Red Cross has sent a team accompanied by dogs trained to find bodies in the rubble.

-- UNICEF donated $50,000 for needs assessment and for the expansion of their on-going program of support to mothers and children.

-- Many relief organizations have contacted UNDRO and expressed their readiness to participate in the rescue and relief operations. As of 6:50 a.m., September 24, the GOM had not requested UNDRO to launch an appeal for international assistance. However, the GOM has asked UNDRO to coordinate international donations.

-- The UNDRO resident representative in Mexico City transmitted, on September 21, the following rescue requirements as presented by the Minister of Foreign Affairs:

- specialized equipment for building demolition
- oxygen masks to prevent inhalation of gases and fumes
- firefighting helicopters
- plasma with necessary preserving equipment

-- The U.N. Secretary General cabled President de la Madrid with an offer of U.N. assistance. M'Hamed Esaafi, Under-Secretary General and the U.N. Disaster Relief Coordinator (UNDRO), arrived in Mexico on September 21 as a special representative of the Secretary General. The UNDRO Coordinator donated $50,000, the maximum grant authorized under the U.N. General Assembly's mandate.

-- Venezuela's Office of Civil Protection (OIPC) sent 3 search-and-rescue teams with a total of 35 personnel to Mexico.

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-- The Government of West Germany has sent two planes with 18 relief personnel and search dogs as well as relief goods and medicines

Julius W. Becton, Jr.
Director, Office of U.S.
Foreign Disaster Assistance

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7. Economic Aspects of Border Issues

Mexican and US border economies are closely intertwined. The level of interaction is intense and there is much more cooperation, both on the private and governmental level, than is generally perceived. Principal border economic and trade issues now receiving attention relate to the Mexican in-bond industry program, economic development of the border region, trucking reciprocity, customs cooperation, and international bridges and border crossings.

In-Bond Industries

The interdependent border relationship is clearly reflected in the Mexican in-bond industry program, the maquiladoras. This program involves largely US-owned, labor intensive manufacturing and assembly plants operating on the Mexican side. Mexico is currently the world's second largest in-bond producer, with 750 in-bond plants employing about 250,000 persons. The border industry program, benefitting from lower labor and materials cost in Mexico, accounts for over $1.25 billion annually in exports to the United States and offers Mexico an excellent opportunity to attract sorely needed foreign capital.

Special Border Economic Problems - Border Economic Development

Mexico's 1982 economic crisis had severe repercussions on both sides of the border, where commercial activity declined and unemployment rose beginning in mid-1982. Many of these problems still linger, especially because of the recent impact on the economies of Mexico and the state of Texas of lower oil prices. On the other hand, the in-bond program described above has flourished in response to the realignment of the exchange rates and the growth of the US economy. The US Administration's efforts to deal with these post-1982 special border economic problems have focused on supporting Mexican recovery on the national level. An August 1983 US program to stimulate job creation in the border region by promoting economic diversification continues in effect. In June 1985 President de la Madrid announced the "Development Program for the Northern Border". Many elements of this program are being implemented despite Mexico's current economic difficulties.

International Bridges and Border Crossings

For example, the Mexican border development program calls for replacing and expanding various international bridges and border crossings between Mexico and the United States. In December 1984 and December 1985 the US and Mexican governments met and continued to implement previous understandings on this subject. A new land border crossing at Otay Mesa, California/ Mesa de Otay, Baja California was inaugurated in January 1985. A new bridge at Presidio, Texas/Ojinaga, Chihuahua was

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inaugurated on April 15, 1986. Agreements have been reached to adjust a border crossing at San Luis, Sonora/San Luis, Arizona; to construct in 1986 a replacement bridge at Ciudad Acuna, Coahuila/Del Rio, Texas, and a new span for the bridge at Reynosa, Tamaulipas/Hidalgo (McAllen), Texas; and to expand Gateway Bridge at Matamoros, Tamaulipas/Brownsville, Texas. Both sides are studying the possibility of expanding or replacing the Zaragosa bridge at Ciudad Juarez/El Paso.

Customs and Transportation

Currently, transportation and customs facilitation issues are handled under various mechanisms. Annual customs conferences take place under the Mutual Customs Assistance Agreement signed between the United States and Mexico in 1976. These conferences have made progress in exchange of information and on matters such as coordinating work hours at the border, reducing delays in border clearances, joint clearance of cargo, and improved enforcement cooperation. Tighter inspection procedures by US Customs are occasionally required by increased narcotics trafficking across the international boundary.

Cross Border Trucking

Mexico prohibits US trucks from its highways except in a few selected border areas. Efforts to gain more reciprocal access from Mexico through bilateral negotiations have thus far not been successful. The US Congress responded to the lack of progress by restricting Mexican access to US highways, in 1982 with a moratorium on issuing ICC permits to Mexican trucks, and in 1984 with legislation restricting Mexican access to border communities.

US International Trade Commission Hearings

Prompted by the US Congress, the International Trade Commission conducted a series of hearings on border trade and commerce in US border cities during March-April, 1986. Principal subjects of discussion included creation of new US foreign trade zones, further expansion of the maquiladora industries, easing of trade barriers between the two countries, building even more international bridges and border crossings, various proposals for a bilateral border free trade zone, US tax incentives to establish economic enterprise zones, promotion of joint fishery ventures, and encouraging Mexico to provide greater reciprocity in trucking and civil aviation, and improved coordination between the two federal governments. The hearings were well covered by the US and Mexican border press and were welcomed for the increased attention given to the problems of the border region.

May 1986

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8. Economic Aspects of Tourism

The recent collapse of world oil prices has compelled the Mexican Government to search for ways to offset the estimated $6-8 billion shortfall in oil export earnings this year. Mexico has targeted tourism as an industry that could help compensate for this loss in foreign exchange income. Practically overnight, tourism promotion has become a major Mexican Government priority.

Tourism ranks after petroleum exports and in-bond industry (maquiladora) receipts as Mexico's third largest foreign exchange earner. In the period 1980-85, tourism receipts averaged $1.0 billion annually. Last year, tourism earned Mexico $1.8 billion, down from $2.0 billion in 1984. It accounted for almost 10 percent of the country's foreign exchange earnings and 20 percent of its non-oil foreign income. Officials hope tourism will grow by $200 million to $300 million a year in the next decade, reaching the $3 billion mark in the early 1990's. The flow of foreign tourists to Mexico has averaged 4.3 million annually since 1982, and informed tourist industry sources believe that, with proper tourism infrastructure development backed by advertising and promotion, Mexico could attract as many as 10 million tourists a year.

Acting upon instructions from President de la Madrid, the Mexican Tourism Secretariat announced on March 12 a comprehensive package of measures aimed at boosting tourism earnings. These measures constitute the most ambitious effort ever made by Mexico to expand international and domestic tourism. The main elements of the new promotion package are outlined in the attachment.

The new measures place special emphasis on improving the protection and safety of foreign tourists. Efforts will be undertaken by the Mexican Government to assure the security of these visitors through better coordination and collaboration with state and municipal authorities in tourist areas. There will be an increase in the number of highway police and stepped-up vigilance on all major tourist highways. The Tourism Secretariat will also improve its system of responding to tourist complaints and it will open more offices to provide this service.

It remains to be seen whether tourism will be affected by the fear of terrorism that is cutting sharply into European and Middle Eastern travel in recent weeks. Mexico should gain from a perception that it is a safer destination than those caught up in terrorist violence.

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Main Elements of Mexican Tourism Promotion Program

Travel by Air

--permit an increase in the frequency of flights from the US, Canada and Europe and a rise in the number of passengers airlines will be allowed to bring in

--discounts ranging from 20 to 40 percent by Mexico's two national arilines on flights from Canada and the US to 11 destinations in Mexico

--easing of rules on air charter operators

Travel by Land

--a new program to provide unleaded gasoline for sale on major highways used by American tourists

--more service station/restaurant full tourist service stops along major tourist routes

Travel Aboard Cruise Ships, Pleasure Boats and Ferries

--improvements in the port infrastructure at 9 major tourist sites

--plans to attract more pleasure and ferry boat visits by improving sport and recreation facilities and by reconstructing marinas

Purchase of Real Estate in Tourist Areas

--will establish flexible financial mechanisms to permit foreigners to buy condominiums in Mexico on terms similar to those in other countries

Advertising and Promotion

--officials plan to spend $22 million in 1986 to coordinate promotion campaigns with airlines and other tourist service organizations

--will improve information in the US and other countries about tourist attractions in Mexico

--will promote super-economical package tours for Mexican workers and their families

Conventions and Exhibitions

--will facilitate import of materials for exhibitions, trade fairs and conventions

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COMMITTEE II—POLITICAL AND SOCIAL AFFAIRS

1. Relations Between the United States and Mexico

US-MEXICAN RELATIONS

The US and Mexico enjoy good, positive relations. Our ties are strengthened by the excellent working relationship of US and Mexican leaders. Presidents Reagan and de la Madrid have met four times. Secretary Shultz and Foreign Secretary Sepulveda meet often. Meetings between other cabinet officers, US and Mexican legislators and judicial officials, and Ambassador Gavin's broad dialogue with key Mexican figures have all helped the relationship. There are binational entities including a Binational Commission to review the broad relationship, a Joint Commission on Commerce and Trade, a Mixed Commission on Scientific and Technical Cooperation, a US-Mexico Commission on Cultural Cooperation, the International Boundary and Water Commission, environmental cooperation coordinators and others. Effective channels of communication are in place.

The dramatic decline in petroleum prices in 1986 is seriously affecting the Mexican economy. Mexican officials are working closely with the US and other nations, and with international financial institutions during this period. A spirit of constructive cooperation characterize efforts to deal with the effects of Mexico's declining oil income.

The prompt US response to Mexican requests for assistance after the September 19-20 earthquakes was favorably received by the Mexican Government and people. The US provided over $4 million in emergency relief and offered to assist reconstruction efforts. These actions indicate to the Mexicans that the US is a good neighbor and can be counted on in a time of need.

The high value placed on the relationship was also demonstrated by the US in response to Mexico's earlier financial crisis, of August 1982. The US implemented extraordinary financial assistance measures at that time including advance payment of $1 billion for oil for the US Strategic Petroleum Reserve, Commodity Credit Corporation guarantees for US agricultural exports amounting to $1.0 billion, US cooperation with other central banks in arranging a $1.85 billion short-term loan to Mexico, other "swap" loans to help Mexico meet its short-term obligations and encouragement to banks to extend or renegotiate their loans with Mexico. Mexico has fully met the financial commitments it made in connection with these 1982 assistance arrangements.

Our relations are characterized by a complex web of social, economic and cultural ties which is a logical outgrowth of geographic proximity and interdependence. Progress has been made on some bilateral issues in recent years, but differences remain. We cooperate closely on law enforcement matters, including joint customs operations, a narcotics eradication program, and the transfer of American and Mexican prisoners.

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"The United States tendency to see Mexican insistence on its modified one-party system as an anachronism contrasts uncomfortably with the Mexican regime's apparent belief that steering Mexico through economic changes and even political flux requires close adherence to tradition and secure control."

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Mexico: Challenges and Responses

By Daniel C. Levy
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Although Mexicanists have too often deemed Mexico's political system in crisis and underestimated its enormous capacity for adaptation, the record shows more than a half-century of regime continuity, unparalleled in Latin America. Yet the regime faces a more acute challenge, at least in the economic arena. In turn, attempts to manage the economic crisis through austerity present further challenges to a political system already involved in an indeterminate and sensitive evolution.

How has the Mexican regime responded to the challenges posed by the economic crisis and by the 1985 elections? To what degree has President Miguel de la Madrid engineered continuity and change? De la Madrid assumed the leadership of Mexico's presidentially centered system amid the depths of economic crisis in 1982. His ascension generated high expectations, because of his background (including economics experience and a master's degree in public administration from Harvard University), the serious tone he set, the upbeat feeling generated by the departure of discredited President José López Portillo (1976–1982), and the general sense of renewal associated with Mexico's regular (sexennial) and massive transfer of power. Early indicators buoyed hopes. The economy rebounded, and de la Madrid displayed leadership skills that contrasted with Mexico's erratic and even demagogic experiences under both López Portillo and Luis Echeverría (1970–1976). Both had been vilified immediately on leaving office and López Portillo, while in office, had been attacked in direct ways long considered illegitimate in Mexican politics. The stature of the presidency itself, so important to Mexican stability, seemed jeopardized.

Moreover, in the aftermath of López Portillo's excessive self-aggrandizement, de la Madrid appeared more serious than any recent predecessor about attacking corruption and the unresponsiveness of Mexico's public bureaucracy. His "moral renovation" campaign brought some reforms and the prosecution of a few notorious figures from both labor unions and the government. Before long, however, even optimistic observers could see that reform would be limited by severe obstacles (including certain powerful figures and groups like the oil workers, deeply ingrained practices that benefit the regime, and the decreasing ability to pay adequate wages to bureaucrats). More important, the economic outlook suddenly worsened in early 1985. Thus, in the second half of its term, the de la Madrid administration may face the added challenge of frustrated expectations.

The right has shown some signs of renewal. In addition to its electoral surge, business sectors have been increasingly politicized, particularly in the aftermath of the populism practiced by the two previous administrations, culminating in the 1982 expropriation of private banks. Rising middle-class alienation and changing patterns of political socialization, highlighted by the growing importance of private universities, graduate education abroad, and privately owned television, contribute to the right's growing strength. Above all, technocrats are gaining influence at the expense of more traditionally trained politicians.[1]

Some stirrings associated with the left also warrant the regime's attention. Alienation has been especially notable among intellectuals since the violent and infamous 1968 repression of university students and has been exacerbated by perceptions of technocratic penetration and regime shifts to the right. The independent labor movement has gained strength, and increased tensions have characterized the regime's relations even with the mainline union. On the other hand, while the renewed stirrings of both the left and the right have injected potentially significant and unpredictable forces into the political picture, they have not yet come close to translating into any serious organizational alternative. Similarly, the military remains securely at the service of the regime, but merits a kind of monitoring that would have been superfluous until recently.

THE ECONOMIC CHALLENGE

The de la Madrid administration has apparently rec-

[1]Roderic A. Camp, "The Political Technocrat in Mexico and the Survival of the Political System," *Latin American Research Review*, vol. 20, no. 1 (1985).

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ognized that the economic crisis is its principal political problem. In response, it has initiated economic policies that represent a significant degree of change. Excessive protectionist measures in effect for years have given way to freer trade. Foreign companies are negotiating more flexible terms for entry into (or expansion within) the Mexican market; and Mexico has been bending its traditional insistence on majority ownership by domestic interests, with IBM (International Business Machines) the latest example. At the same time, Mexico has been trying to diversify substantially its economic relations with industrial countries other than the United States and is playing a more assertive role in world oil markets.[2] Mexico has also followed an aggressive foreign exchange policy, while fulfilling its enormous international payment obligations.

Within Mexico, similarly striking measures have been taken. The regime started selling several publicly owned enterprises that represented onerous expenses and that, instead, became revenue sources. In 1985, the federal budget was cut significantly on three occasions. Roughly 30,000 government workers were laid off and an additional 80,000 positions that were vacated in 1983 and 1984 will not be refilled. (The September, 1985, earthquake could place further major strains on the budget.)

Overall, the degree of policy change is suggested by the hesitation and debate in the economic ministries of the Cabinet. One example came with the April, 1985, decision to sign the kind of trade agreement with the United States that the latter has desired for years. Not only the Ministry of Foreign Relations but even generally conservative ministries (e.g., Finance) expressed opposition, yet the Department of Commerce had the President's decisive approval.

On the basis of such developments, some observers predict further economic policy change, including, despite previous resistance, Mexico's entry into GATT (the General Agreement on Tariffs and Trade). They also assume that Mexico will maintain its distance from OPEC (the Organization of Petroleum Exporting Countries); that an opening economy will allow consumers to buy better products at lower prices; and that domestic business will respond favorably to new incentives and pressures by increasing its productivity and reducing Mexico's overdependence on oil exports.

The optimism has a basis in concrete results. Comparisons between 1982–1983 and 1984 through the beginning of 1985 are notable. During 1982 and 1983, private investment fell by approximately 17 percent and 22 percent, respectively, because of poor economic conditions and prospects and, perhaps, a business strategy of withholding money as a bargaining chip with the new administration. Business probably tried to redefine "the rules of the game" in the aftermath of the bank expropriation.[3] An indicator of change is that private investment rose almost 9 percent in 1984. Additionally, 1984 private-sector imports (about $6.5 billion) represented a 52 percent increase over 1983 levels. Together, higher investments and imports contributed to an economic growth rate of 3.5 percent in 1984; this followed two years that had seen the first negative rates in three decades. Concomitantly, Mexico registered a $12.2-billion surplus in its 1984 trade account, with nonoil exports growing at 18 percent over the previous year. Mexico's debt was restructured, and it decreased as a share of the gross domestic product. Regarding inflation, the annual rate of over 100 percent in early 1983 fell to about 55 percent in mid-1985. Compared to what was happening in much of Latin America, such indicators showed enviable progress, despite an unfavorable international market for oil producers.

Not surprisingly, however, there has been a bleaker side to the economic picture. Austerity and rationalization have meant tremendous hardship, certainly for the poor and middle classes. Real wages have fallen over 30 percent since de la Madrid came to power. One can even see an important thread of continuity in economic policy in the emphasis on growth and international credibility, with harsh social consequences, however tragic, regarded as acceptable. Naturally, much of the left criticizes not just the results but the basic orientation of the policy; the selling of public enterprises is one example.

Perhaps less obviously, many businesses have expressed strong reservations, considering the changes to be too little, too late. In fact, the regime has not been able to strengthen its political credibility as much as it had hoped, but credibility is necessary for the success of even technically appropriate policy. Ironically, at times credibility has apparently been higher outside than inside Mexico. While it could be argued that foreign bankers have not had options other than supporting Mexico, it is also true that they have been willing to restructure Mexico's nearly $100-billion foreign debt. By contrast, many Mexican entrepreneurs are still reluctant to invest, often holding their money abroad. As a partial consequence, the regime may be opening the economy to foreign business.

For whatever reasons, the economic news by mid-1985 was alarming. Despite the budget reductions, the 56 percent inflation figure (based on January-August) approached the 1984 figure and, by July, the public deficit passed the figure targeted for all of 1985.[4] The current account, showing big surpluses in 1983 and 1984, fell to a minimal surplus, while international reserves fell from $6 billion to $3 billion between December, 1984, and July, 1985, largely because of increased capital flight. Then, on September 19, the IMF (International Monetary Fund) declared that Mexico, having failed to meet certain austerity targets, was not qualified for a pending $950-

[2]Gabriel Székely, "México y el petróleo, 1981–1985: Crónica de amargas lecciones," *La Jornada*, September 1, 1985.

[3]Figures in this paragraph are from official reports of the Banco de México.

[4]Data on 1985 from Wharton Econometric Forecasting Associates, *Latin American Economic Indicators*, vol. 3, no. 9 (1985).

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million loan. IMF authorities changed their tough posture soon after learning of the earthquake which, by savage coincidence, struck Mexico that very day. Foreign bankers also extended 1985 repayment deadlines until March, 1986.

THE ELECTORAL CHALLENGE

Rarely in recent decades have nonpresidential elections in Mexico generated as much interest as those held in July, 1985. Particularly striking was the United States interest, as reflected in American press coverage. Some saw a key midterm test for the de la Madrid administration. How would a beleaguered public rate the President's handling of economic and other challenges? How strong was the regime in light of the economic crisis? Foreign expectations may have been heightened by the reemergence of electoral politics in nations like Argentina, Brazil, Peru and Uruguay—as well as by the closely watched and controversial elections in El Salvador and Nicaragua. Could Mexico afford to look less democratic?

Expectations were additionally raised by the major opposition party's increasing strength in recent elections. In terms of seats gained, the PAN (National Action party) has been the chief beneficiary of the 1977 reform, which set aside 100 of 400 Chamber of Deputy seats for opposition parties that obtain at least 1.5 percent of the national vote and gain fewer than 60 seats under the simple majority method (by district) used for the other 300 seats. The reform itself had been launched partly as a response to the apathy and abstentionism plaguing the regime in the 1970's, and partly as a way to bolster the left as a counterweight to the right, thereby portraying the PRI as a responsible middle. Once initiated, however, the reform had to be managed carefully. In any case, in the 1982 congressional elections the PAN had gained 50 of the 100 seats, capturing over 17 percent of the national vote. The PAN did well in the north, and its successes were repeated in 1983, in local elections in large northern cities, highlighted by victories in several state capitals.

In 1985, the major northern states of Nuevo León and Sonora were among the seven states with governorship openings. These two races overshadowed the national voting for the Chamber; many believed that the PRI could be beaten for those governorships and that it might for the first time honor the results of a gubernatorial loss (setting the stage for further contests in 1986, when 14 governorships would be at stake).

Political legitimacy was on the line not only because of international attention but because de la Madrid had tied his word—that he would honor the results—to his overall campaign for honest responsibility in government and trust in the presidency. He had also allowed at least some opposition victories in 1983 and, more broadly, had respected considerable freedom of speech, the press, and dissent, accepting criticism with dignity. Therefore, some critics saw in the 1985 elections a major blossoming of political reforms already in progress. But more sober observers were reserved in their expectations.

In fact, the PRI took all seven governorships and did not concede that even the major contests were close. Instead, it continued to give way a little more in the Chamber. Compared to 1982, the PRI vote dropped slightly, to 64.7 percent, and it surrendered 11 rather than just 1 of the 300 district-based seats.[5] But the fracturing of the opposition is striking. The PAN saw its vote fall slightly, to 16.7 percent, while its proportional representation fell from 50 to 32, more than offsetting its increase from 1 to 9 in district wins. The left increased its vote a few percentage points, to 13 percent, reflecting either new strength or some manipulated balancing of right and left, yet no single leftist party won more than 3.5 percent, i.e., 12 seats. It is difficult to gauge how the PRI may have been hurt by its questionably grand victory margins and by the fact that 49.5 percent of the more than 35 million registered voters still abstained.

FRAUD AND PROTEST

Thus, the results represented basic continuities in the regime's response to electoral challenges. Fraud was evident in missing ballot boxes, duplication of names, last-minute disqualification of opposition poll watchers, and so forth. And if the PRI cheated as usual, the PAN protested as usual. The protests involved some violence and repression but probably not to an unusual degree. Indeed, for the most part the PAN accepted the rules of the game. Notably, leftist parties backed the PAN in some of its claims, but all electoral college representatives avoided the extreme protest of declining seats in the Chamber.

Why did Mexico not go further to break traditional electoral patterns? First, as in the corruption issue, even a genuine disposition for change cannot easily brush aside deep-seated structural factors that perpetuate certain practices. Whatever the President's declarations, many government and PRI bureaucrats did not believe that Mexico should open the political process, at least not while dealing with the dangers of economic crisis and social austerity. Many national and local party leaders feared for their careers if they lost to the opposition. The minister of *Gobernación* (Interior)—traditionally a presidential aspirant—would not want to preside over an unprecedented PRI defeat.

In fact, notwithstanding the PAN's gains in the last few years, one can also find evidence of the regime's unwillingness to strengthen the reform very much. For exam-

[5]Data from the electoral college reported in *Excélsior*, July 17, July 22, and August 30, 1985. Among other leftist parties the vote and seat shares were: Mexico's Unified Socialist party and Socialist Workers party, 3.5 percent and 12 seats each; Populist Socialist party, 2.6 percent and 11 seats; Mexican Workers party and Revolutionary Workers party, 1.7 percent and 6 seats each. The rightist Democratic Mexican party received 3 percent and 12 seats, while the obscure Authentic party of the Mexican Revolution was awarded 2.4 percent and 11 seats (including 2 district wins).

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ple, the PRI took 106 of 118 municipal positions and 139 of 146 state legislative seats in the 1983 elections, results that were hard to accept at face value. The governorships of Nuevo León and Sonora would be bigger prizes. Although some believed that Mexican "federalism" would render an opposition governorship impotent, there was the danger that a governorship could bolster otherwise more isolated PAN municipalities. Of course, strong and specific directives from the President could not have been easily ignored, but these were not forthcoming.

Most important, elections have not been the "test" many attributed to them. They have provided a test of the regime's priority on democratization, or its handling of the tradeoffs between independent political participation and its own control. But Mexico's elections are not fundamental tests of popular opinion or citizen reaction to the President's handling of economic challenges. Crucially, the regime and its official party continue to regard power-sharing with other parties as a foreign model, alien to the bases of Mexico's enviable stability.

Furthermore, the 1985 elections reflect significant elements of continuity in the broader political arena, where there is still a shortage of political information necessary for democracy and a weak organized opposition on both the right and the left.

First of all, the public never knows whether the reported vote count is accurate. Beyond that, most of the public has been shielded from the electoral process by the national media's inattention; typically, Mexico City's residents know more about events outside Mexico than about events in Nuevo León or Sonora. The PRI's campaign hardly provided specifics on the basis of which people could evaluate its performance in office. Nor was information available on such aspects of the campaign as the extent or source of PRI funds (tied to the government). Just as typically, however, the PAN did no better. It denounced the PRI as a long-standing failure and called for change. It blamed the PRI for corruption and economic difficulties but it did not tell citizens what alternative it offered.

The 1985 elections also confirmed the lack of a viable alternative to the more or less centrist PRI rule. Most speculation about a rising alternative has focused on the right. But however many votes it garners, the PAN still lacks the leverage to obtain major government positions.[6] Moreover, it is unable to articulate its positions so that it can capitalize on discontent. In too many instances, it has not managed even to select attractive candidates. Crucially, it has not been able to galvanize and organize what remains an unintegrated right. Further, the right continues to lack an intellectual base comparable to the left's to articulate its positions.

Increasingly, PRI–PAN campaigns are struggles between two elites offering few specific policy contrasts. Moreover, business (itself divided on many issues) continues to gain more from working with the PRI than the PAN. Similarly, the relevant choice for the rising crop of technocrats is usually the PRI or no party affiliation. Finally, whatever its own rightist tendencies and growing influence, privately owned television has hardly boosted an organizational alternative on the right.

Of the left it might simply be said that less was expected and less was achieved. Like the right, the left is internally split but, much more than the right, it remains (as it has been for decades) electorally split. The 1981 creation of the PSUM (Mexico's Unified Socialist party) aimed at increased strength through unity. But, as reflected in recent elections, the PSUM has not been able to create a mass following to the PRI's left; thus the PRI remains in the rather comfortable position of defending Mexico's "revolutionary heritage" from the principal threat on the right. Additionally, renewed fracturing occurred in early 1985, because a new PSUM-led front was not inclusive. In most districts, the left could not agree on a coalition candidate.

Still, the division of a small pie is less noteworthy than the size of the pie itself; the left has been unable to attract a mass backing despite Mexico's economic calamities and the regime's painful responses to them. Clearly the problem lies not just with the electoral left but with the left's overall weakness in Mexican politics. Illustratively, media on the left continue to attract only a very small—and privileged—audience. And even as organized labor suffers and distances itself more than usual from the regime's policies, it finds itself in disarray. No organizational force outside official channels has been able to build a strong base among those suffering most: the unemployed, the nonunionized workers and the peasantry.

All these important political continuities, of course, do not suggest the absence of change. The recognized electoral strength of the PAN, and the representation of both right and left in the Chamber, could not have been assumed just a few years ago. Furthermore, stimulated by such challenges, the PRI has responded with a degree of internal reform. For example, it selected vigorous candidates, with good credentials among technocrats, for the two key governorships in 1985. Although its Sonoran candidate emerged from a familiar political career in Mexico City, his counterpart in Nuevo León had actually built a local career. In 1984 and 1985, the PRI even experimented with primary-like procedures to open up the participatory process.

Nevertheless, the PRI did not move far toward democratization. Most candidates were chosen in traditional, restrictive fashion. The PRI has "modernized" in ways that have favored party centralization at the expense of its mass-based labor and peasant constituencies. And the party's twelfth national assembly (1984) frustrated those hoping for reforms aimed at making the PRI less a mouthpiece for the regime and more a representative of its constituency; instead, the assembly merely issued the PRI's familiar platitudes.

[6]See Soledad Loaeza, "La construcción de la burbuja," *La Jornada*, August 4, 1985.

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In its efforts to respond to economic and political challenges, Mexico has felt undermined by the United States, particularly by some officials of the Reagan White House and the National Security Council. Mexico believes that these officials either grossly underestimate the severity of the problems Mexico confronts or gauge Mexican progress by United States standards. It believes that they are tragically uninformed about the infeasibility of alternative Mexican responses. Indeed, Mexican observers do not see how the de la Madrid administration could have responded to its economic challenges in ways more favorable to United States interests, given the basic assumption that Mexican stability is a high-priority interest. Although probably few Mexicans perceive a deliberate United States attempt to destabilize the de la Madrid regime, many are more receptive than usual to that kind of interpretation.

Tensions generated by United States reactions to Mexico's economic and electoral policies are especially important because they are indicative of similar tensions over other Mexican–United States concerns. Among these are prospects for some version of the immigration bill almost passed by the United States Congress in 1984, which could hamper Mexico's "safety valve" just as Mexico faces acute employment problems. Another example involves United States reactions to the 1985 murder in Mexico of a United States drug agent, including charges of Mexican corruption and car-by-car searches at the border (threatening to slow commerce and tourism, which Mexico so desperately needs). But perhaps nowhere are bilateral tensions more poignant than in Central American policy. Again, Mexicans believe that some United States officials underestimate the dangers Mexico faces and blithely overlook the dire consequences that could flow from alternative policies.

Mexicans clearly resent any American inference that Mexico's Central American policy is guided by an affinity for leftism or by a need to needle the United States. In fact, Mexican leaders are guided above all by considerations of Mexican stability. Given its geography, Mexico has more to lose from an aggravation or prolongation of Central American conflict than any other non-Central American nation. The presence of hundreds of thousands of refugees threatens to drain Mexico's already limited resources. Government aid sometimes alienates Mexico's own poor, while government inattention brings criticism from the left and from international organizations. The refugee problem has added a volatile element to Mexico's generally tense relations with Guatemala. And exacerbated regional volatility could expand the role of Mexico's military. Furthermore, there are some signs of left-right polarization within Mexico—even within the regime itself—over the refugees and other aspects of the Central American threat. On top of all this, intensified Central American conflict could lead to one or another alternative that would very seriously undermine Mexican–United States relations.

Those in the United States who do not appreciate these dangers, Mexico argues, are mistaken in their belief that Mexico could take a more pro-United States position. Continued United States carping is especially irksome, in view of the fact that de la Madrid has already moved away from the more provocative aspects of his predecessor's policies. He has moderated and placed conditions on support for the Sandinistas, restored full diplomatic status with El Salvador, and transferred refugee camps away from the Guatemalan border (thereby pleasing the Guatemalan government and infuriating elements of the Central American and even Mexican left). Such measures are not reversals of basic regime orientations as much as tactical adjustments to change within Central America and in the Mexican economy, but they provide further evidence that Mexico's prime interest is its own stability and that it seeks not leftism but respectful working relations with all neighboring powers.

Crucially, the de la Madrid administration believes that the administration of President Ronald Reagan should not let its differences over Central American policy harm Mexican–United States relations and that—judged on their own terms—Mexican responses to economic and electoral challenges ought to bring more United States support than they have. Thus, Mexico is irritated by the mixed United States response to de la Madrid's handling of the economic crisis. Has he not, at political risk, done much of what one would expect, given a United States definition of the problem? In return, however, Mexico sees the United States pursuing detrimental economic policies that the United States says Mexico should accept because these policies are the natural consequences of United States global status and the rules of the international economic game. Mexico should wait for United States economic growth to stimulate Mexican recovery.

But whereas the United States tends to understate both the economic challenge and Mexico's bold policy response to the economic problems, it has inflated the challenge and thereby undermined the Mexican regime's ability to engineer bold policy change on the electoral side. United States media eagerly covered the PAN's rise and then denounced Mexico's failure to democratize.

United States Ambassador John Gavin's meeting with PAN leaders has been widely viewed as an endorsement of either the PAN or two-party competition for power. (In fact, perceived coziness with the United States may have brought about an anti-PAN backlash.) Overall, the Unit-

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ed States tendency to see Mexican insistence on its modified one-party system as an anachronism contrasts uncomfortably with the Mexican regime's apparent belief that steering Mexico through major economic changes and even political flux requires close adherence to tradition and secure control.

During 1986, both Mexico and the United States will hover around the midpoints in their incumbents' administrations. By 1987, each nation's 1988 presidential campaign will be under way in earnest. Coincidences in the political calendar may underscore the interdependence of the two nations. Relatively little working time remains for better understanding between the two administrations as Mexico continues to grapple with the very difficult challenges it confronts. ■

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DON'T CORNER MEXICO!

by Jorge G. Castañeda

The breakdown of the Contadora peace initiative because of either infinite procedural nitpicking or substantive confrontation marks, among other things, the end of Mexico's first starring role on the international political stage. The adventure had begun in the late 1970s, at a time of U.S. interest in and sympathy for Latin America, new oil discoveries, and high oil prices, and culminated in the joint Mexican-Colombian-Panamanian-Venezuelan effort to bring peace to Central America. But it has been crippled by the weight of foreign debt, by domestic disenchantment, and by President Ronald Reagan's Central American machismo. Although it may not be evident today, the demise of Mexico's foreign policy may prove to be one of the most serious casualties of Reagan's Central America policy.

Present appearances notwithstanding, Mexico was not always interested in Central American and Caribbean Basin matters. It dabbled in the region's politics in the 1920s, when then President Plutarco Elías Calles sent arms to the liberals in Nicaragua; in the 1930s, when Augusto César Sandino, the self-styled Nicaraguan liberator, tried to raise funds and sought refuge in Mexico; and in the 1950s, when Fidel Castro, Ernesto ("Che") Guevara, and their guerrillas launched the Cuban revolution from the Mexican seaport of Tuxpan. In general, however, Mexico had looked north or across the Atlantic Ocean when it focused on the rest of the world. So it was with some surprise that the country's inhabitants—and foreign observers—realized in the late 1970s that Mexico was seeking a leading role in the unfolding Central American crisis.

As Mexico became increasingly active in the

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area's affairs, many analyses of the reasons for and origins of this activity appeared. These analyses cited Mexico's historical sympathy for revolutionary movements in Latin America, deeply rooted in the country's own revolution of 1910; its ideological posturing for the benefit of the domestic political system's left wing; and the simplistic—and nearsighted—U.S.-baiting by a Mexican president, José López Portillo, who let his dislike for former President Jimmy Carter get out of hand. More accurately, it was seen as an attempt by Mexico to turn its northern neighbor's growing difficulties in Nicaragua, and later, El Salvador, to its own advantage at a time of strained Mexican-U.S. relations. These and other analyses of Mexico's new activist foreign policy came and went across the Rio Grande; all had some ring of truth to them, but none could fully explain Mexico's intentions in the Caribbean Basin.

The demise of Mexico's foreign policy may prove to be one of the most serious casualties of Reagan's Central America policy.

In fact, though never clearly expressed and only vaguely perceived in different sectors of society and government, from mid-1978 on, Mexico's actions sprang from a general idea of goals in the region and how to achieve them. Mexican policy aimed to carve out a sphere of influence in the only areas where such an ambition was feasible: Central America and the Caribbean Basin. South America was too divided and removed from Mexican concerns and capabilities, and no other region then had anything remotely like a strong link to Mexico or seemed close to developing any in the future. True, the country had never shown much interest in the "sister republics" to the south or in the island countries to the east, but nonetheless these countries had always looked to Mexico with a mixture of fascination and fear, respect and resentment.

Indeed, Central American elites had been studying law, medicine, engineering, and the

art of war in Mexico for many years. The area's revolutionaries and reformers, from Cuba's José Martí at the turn of the century to CIA-ousted Guatemalan President Jacobo Arbenz Guzmán in 1954, had always conspired from, fled to, and come to die in Mexico. So in addition to the country's obvious affinities with most Caribbean Basin countries—shared language, history, and problems—Mexico had sound cultural grounds for envisaging a durable influence in the region.

Some solid, if less obvious, economic and political reasons for thinking in these terms also existed. By the end of the 1970s, Mexico had become a relatively developed country, by Latin American standards. Despite serious structural weaknesses in its economy, glaring inequities in the distribution of wealth, and recurring economic crises that shook the country's finances and self-confidence, Mexico had built a large and diverse industrial base. Its economy increasingly complemented that of most Central American and Caribbean countries. And the discovery in 1976–1979 of new, giant oil reserves in the states of Chiapas and Tabasco and in the Campeche Sound, as well as the prospect of high revenues from oil exports, made Mexico's economic future seem bright, even dazzling.

In contrast, the isthmus and island economies have remained essentially agricultural exporters of commodities. They depend mainly on American imports for consumer goods and for most of the tractors, herbicides, pesticides, and fertilizer they need to produce the cotton, coffee, bananas, sugar, and meat they sell on the world market. Mexico produced nearly all of the same goods imported—largely from elsewhere—by the Caribbean Basin economies. On paper, it looked like an ideal marriage.

But hypothetical economic considerations alone could not make Central America and the Caribbean Basin the keystone of Mexican foreign policy. Mexico would never be able to wage, much less win, an economic competition with the United States, the region's reigning power since the turn of the century. How could the inefficient and poverty-ridden

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Mexican economy compete with the United States, literally in America's own back yard?

Courting the Left

The answer, of course, was to compete not economically, but politically. Here the emerging social unrest and desire for change in much of the region entered into the equation. Mexico would be able to nudge out the United States as the dominant influence in the Caribbean Basin only by winning the political sympathies of the area's inhabitants and governments. And it would find this sympathy only on the left, not on the right end of the political spectrum. Subsequent American warnings notwithstanding, Mexico felt it had nothing to fear from left-wing governments in the Caribbean Basin. It knew that, despite their Marxist-Leninist trappings, Latin American revolutionaries continued to be middle-class nationalists with a popular following. It had learned from the records of Guatemala from 1950 to 1954, Cuba since 1959, and Chile from 1970 to 1973 that left-wing governments would never think of meddling in Mexican politics: Mexico was their best—their only—ally in the Western Hemisphere.

Although most of the countries in the area had right-wing, pro-American, and unpopular leaders who would never look to Mexico as a counterweight to the United States, the situation was changing rapidly. The victory of the Nicaraguan revolution seemed imminent. That and the apparently favorable prospects for insurgencies in El Salvador and Guatemala in late 1978 and early 1979 gave Mexico every reason to be optimistic. If the Sandinistas overthrew Anastasio Somoza Debayle; if the guerrillas in El Salvador rode on the Sandinistas' coattails to victory in their own country; if the Guatemalan revolutionaries were in turn swept into power by the regional revolutionary tide; if geographic realities obliged Honduras and Costa Rica to align themselves with their neighbors' policies; and if Mexico were seen by these newly triumphant revolutionary movements as a true and trusted ally, it would achieve the anti-American political edge it sought. For no matter how moderate the Central American and Caribbean revolutionaries might appear in dealing with the United States, their anti-American nationalism was deep enough for Mexico to turn to its advantage.

Mexico had its work cut out for it: Support the Central American revolutionaries in their quest for power; transform, with time, the political capital thus acquired into lasting influence; and ensure the staying power required by a long-term policy. By wagering that the future of Central America and the Caribbean belonged to a nationalist, not fully democratic, and largely anti-American Left, Mexico may have been betting on the right horse—but only in a very long race.

It also was assuming an additional task, possibly the most difficult: conciliating the interests of these new regimes with U.S. interests. Little would remain of Mexico's regional ambitions if some form of coexistence were not worked out between the United States and the revolutionaries in Central America and the Caribbean. Mexico had both a motive and the capability to encourage a modus vivendi. But it could succeed only with some very deft diplomatic maneuvers: supporting the rebels in their struggles against U.S.-backed regimes until they took power, then turning around and convincing the former adversaries that they had to live with each other—a formidable, perhaps unrealistic, task.

Nevertheless, some factors were operating in Mexico's favor. To begin with, its policy was based exclusively on self-interest. Mexico supported the tide of radical change in Central America and the Caribbean not out of sympathy—though sympathy clearly existed—or anti-American spite—a small dose of which is always present in Mexican foreign policy—but rather because becoming a regional power required a left-leaning Caribbean Basin. Such a policy always would be easier to sustain domestically than one based on high-minded but abstract principles that would entail some sacrifice of Mexico's interests. Further, Mexico could switch back and forth between supporting revolution and reconciling the Left with U.S. interests, depending on Mexican, regional, and American political considerations.

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Third, and most important, this approach did not appear to oppose the core of the Carter administration's approach toward both Latin America and the developing world as a whole. Under Carter, the United States seemed to be indicating that it could live with radical governments in the Third World if they did not alter fundamental geopolitical equations or massively violate human rights. Mexico was confident that it would have enough leverage with Central American and Caribbean radicals to ensure their respect for these American constraints.

Between late 1978 and early 1982, then, Mexico openly supported revolution in Nicaragua; viewed with favor its progress in El Salvador and Grenada; improved and emphasized its ties with Cuba; and watched with interest (and some unease) as guerrilla warfare heated up in neighboring Guatemala. Starting in late 1978, Mexican Interior Minister Jesús Reyes Heroles and Carlos Sansores Pérez and Gustavo Carvajal Moreno, then chairman and secretary general, respectively, of the ruling Institutional Revolutionary Party (PRI), appropriated small but significant amounts of money for the Sandinista guerrillas and their political front, the Group of Twelve. The Mexican embassy in Managua became a center for anti-Somoza conspiracies, a haven and clinic for tired or wounded guerrillas, and a meeting place for opposition leaders. Nicaraguan Vice President Sergio Ramírez Mercado, Foreign Minister Miguel d'Escoto Brockman, Attorney General Ernesto Castillo Martínez, and other current Sandinista officials all made the embassy their home for varying periods of time.

But Mexico's most important role in the Nicaraguan insurrection came in May and June 1979, when international pressure, primarily from Latin American countries, as much as internal armed conflict, forced Somoza from power. In May, shortly after visits to Mexico by Castro and Costa Rican President Rodrigo Carazo Odio, López Portillo broke diplomatic relations with Nicaragua and encouraged other Latin American countries to do the same. At a June meeting of the Organization of American States, the Mexican foreign minister openly defended "the sacred right [of the Nicaraguan people] to rebel against tyranny" and played a key role in stopping the United States from dispatching an inter-American peace keeping force intended to impede Sandinista access to power—even if it was too late to save Somoza. López Portillo shipped substantial quantities of ammunition to the Sandinista southern front, and on July 19 the Mexican presidential airplane carried the newly formed junta into Nicaragua—and power—from Costa Rica.

Through 1983, Mexican economic aid to Nicaragua topped $500 million, including outright grants, loans, and free or discounted oil. López Portillo visited Nicaragua three times, and Sandinista comandantes called regularly at the Mexican Presidential Palace and the Foreign Ministry, often with a lengthy shopping list. Although Mexico was criticized then, as now, for not attaching at least some strings to this support, it viewed the policy as an attempt to buy political trust for the future.

Inevitably, Mexico began looking at the situation in El Salvador through the lens of the Sandinista victory. If developments there proceeded as they had in Nicaragua in 1979, there was no reason to believe a similar pattern would not take hold. In early 1980, Carvajal, by then chairman of the PRI, met with the Salvadoran rebel commanders and their political representatives; in August 1980, the Mexican Foreign Ministry established high-level and ongoing communications with the Farabundo Martí National Liberation Front (FMLN), a federation of guerrilla groups, and its political arm, the Democratic Revolutionary Front (FDR). This relationship with the Salvadoran rebels allowed Mexican authorities to monitor closely events in El Salvador; it also created, even more than in Nicaragua, the kind of trust that would serve Mexico greatly later, if the Salvadoran insurgents attained power.

The best example of this long-term political investment was the so-called Franco-Mexican declaration on El Salvador. In August 1981, the newly elected government of French President François Mitterrand joined Mexico in calling for a negotiated settlement in El Salva-

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dor and recognized the FMLN and the FDR as "representative political forces." Coming during a period of military weakness for the guerrillas, this diplomatic move gave the rebels the single most important expression of international support they have ever received.

Mexico also strengthened its ties with Cuba. In August 1980, López Portillo traveled to Havana, where he was given a hero's welcome. Castro, in turn, twice visited the Mexican resort of Cozumel. In late 1981, when Cuba desperately needed dollars to meet payments on its debt to Western banks, the Mexican government secretly lent the Cubans $100 million. And, though Mexico gave no aid to Grenada, the late Prime Minister Maurice Bishop was warmly received in Mexico City in late 1981.

Mexico's armed forces never viewed Guatemala as they viewed the rest of the region and clearly would have opposed any open or significant support of revolution south of the border. Yet López Portillo's policy toward the Guatemalan insurgency was not totally at odds with Mexican policy toward Central America as a whole. In mid-1981, when the first Guatemalan refugees began pouring over Mexico's southern border, López Portillo, after some initial hesitation, ordered a reluctant army to accept their presence. This decision in part reciprocated advance warnings from the guerrilla leaders that refugees soon would start leaving Guatemala in search of a Mexican haven.

If Mexico clearly emphasized the prorevolution track of its dual Central America policy, it did not totally discard efforts to find a modus vivendi between Washington and the Central American Left. Mexico repeatedly lectured the United States on the need to coexist with Nicaragua, normalize relations with Cuba, and negotiate a solution to the civil war in El Salvador. Mexico also tried to convince the Sandinistas, the Cubans, and the Salvadoran insurgents to take American concerns into account. Although official and unofficial meetings and exchanges of views among the various parties did take place, these efforts remained fruitless. Despite certain signs of leftist flexibility, such as a Sandinista willingness to discuss the departure of Cubans from Nicaragua without defining their status as teachers or advisers, Mexico proved unable to deliver American concessions and consequently was unable to transform flashes of apparent moderation from Cuba, Nicaragua, and the Salvadoran rebels into meaningful concessions.

Mexican policy aimed to carve out a sphere of influence in the only areas where such an ambition was feasible: Central America and the Caribbean Basin.

In November 1981, then Secretary of State Alexander Haig, Jr., met with Cuban Vice President Carlos Rafael Rodríguez in Mexico City; 4 months later, special presidential envoy General Vernon Walters traveled to Havana for a 7-hour talk with Castro. According to Mexican officials, in early 1981, just after Reagan's first inauguration, then national security adviser Richard Allen and Director of Central Intelligence William Casey agreed to a Mexican request to hold talks secretly, in Washington, with Salvadoran rebel leaders.

But Haig vetoed the arrangement as soon as he learned of it, considering the idea entirely contrary to his Central America policy. Other Mexican attempts to promote talks between the warring factions in El Salvador fared no better because of U.S. opposition and a simple fact of diplomatic life: Mexico was too supportive of the Central American and Caribbean Left to play the role of honest broker, yet if it turned away from its new-found allies, it would lose their trust—its only card to begin with.

Mexican efforts on Nicaragua likewise failed repeatedly, with the first phase of Mexico's Central America policy culminating in February 1982, when López Portillo visited Managua, Nicaragua, publicly called for talks and mutual concessions, and tried to convince the United States to enter into formal negotiations with the Sandinistas. But once again Haig blocked the initiative, although some

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progress was made in identifying both sides' grievances and aspirations.

By this time, however, economic insolvency had hit Mexico. López Portillo had become a lame duck, and increasing domestic opposition to Mexico's open support of "subversives" had rendered this policy inoperative. The end of the first phase and the beginning of the second might have come in early 1982, when a European democracy privately asked López Portillo to join it in financially supporting the FMLN-FDR. Mexico refused, though this meant that European funds would not be forthcoming either. Likewise, in December 1981, after France announced a sale of $17 million in arms to Nicaragua, Mitterrand asked Mexico to support publicly this act. Mexico turned him down.

A New Mexican Stance

During the transition between the outgoing administration of López Portillo and the new government of Miguel de la Madrid Hurtado, Mexico shifted the emphasis of its policy from supporting revolution in Central America to mediating between that revolution and its avowed adversary, Ronald Reagan. And in order to mediate with any chance of success, Mexico had to slide over to the diplomatic Center, a difficult place in Latin American politics under any circumstances, and particularly during the Reagan era.

In September 1982, Mexico and Venezuela sent jointly signed letters to the presidents of Nicaragua, Honduras, and the United States, calling on them to negotiate their differences. For the first time, Mexico publicly stated that Nicaragua was not entirely blameless in the regional crisis, especially concerning tensions with Honduras. The initiative, however, was still essentially pro-Sandinista. Four months later, after de la Madrid's inauguration, this joint Mexican-Venezuelan effort was transformed into the Contadora initiative, named after the Panamanian resort island where the foreign ministers of Colombia, Mexico, Panama, and Venezuela met in early 1983.

The Contadora process revealed not only a major revision in Mexican positions, but also an underlying continuity, however unaware

of it Mexican policymakers may have been at the time. As Mexico's own economic problems increased; as the Guatemalan insurgency suffered a nearly fatal blow at the hands of later ousted president General Efraín Ríos Montt; as the Salvadoran guerrillas proved unable to defeat the U.S.-backed government; and, perhaps most important, as the very survival of the Nicaraguan revolution came into question because of the Sandinistas' own mistakes and Reagan's support for the *contras*, Mexico began to emphasize its "mediation" function as opposed to its "support" role. The Contadora group adopted a more centrist approach than previous Mexican initiatives not only because of the presence of other countries more sympathetic to U.S. positions, but also because of the new "balanced and objective" stance laid out by de la Madrid.

This new Mexican stance was reflected in many of the Contadora group's documents and arguments. Nicaragua's problems with Honduras were made the center of the regional crisis, whereas before Mexico had stressed the need to address both the Nicaraguan and the Salvadoran dimensions of Central American tensions. The insurgents in El Salvador clearly perceived this shift. "Contadora, as a group, however, has been unwilling up to now to use its good offices to work for this dialogue [between the FMLN-FDR and Salvadoran President José Napoleón Duarte]. It has not even directly discussed the Salvadoran case," stated an official FMLN-FDR document of mid-1984.

A series of symmetries also was established. Each of these symmetries ran counter to Mexico's previous positions, but each made Mexico a more credible mediator. Cuba was placed alongside the United States in the category of interested outside parties. When the four Contadora presidents met in Cancún, Mexico, in July 1983, they sent messages to both Castro and Reagan, asking for their support. In a January 8, 1984, bulletin issued after a meeting of the Contadora foreign ministers, the insurgents in El Salvador were equated, at least implicitly, with the Nicaraguan *contras*. Both were referred to as "irregu-

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lar forces which aim to destabilize the Central American governments."

The questions of internal reforms, democratic elections, and respect for human rights were addressed in individual sections of the Contadora group's documents, and particularly in the Revised Contadora Act for Peace and Cooperation in Central America. This put Nicaragua's "self-determination" on an equal footing with El Salvador's "human rights violations," which Mexico had repeatedly condemned at the United Nations General Assembly. Neither issue, the act implied, could be considered merely an internal matter. Other, less important changes in the Mexican position also were reflected in the Contadora documents.

While pursuing the multilateral, symmetrical approach to peace in the region through the Contadora process, Mexico also insisted, but with greater authority and success than before, on the need for direct U.S.-Nicaraguan talks. By May 1984, when de la Madrid visited Washington, Mexico's new attempt at playing the honest broker apparently began to pay off. Reagan soon accepted the principle of direct dialogue with Nicaragua, and 2 weeks later, Secretary of State George Shultz made a brief stop at the Managua airport for the first of nine high-level exchanges between the two countries. Almost all the other meetings were held in the Mexican resort of Manzanillo, a tribute to Mexico's role in bringing about the talks.

In addition to altering its views on many Central American issues in order to make Contadora credible, Mexico has toned down its other forms of support for Central American revolutionaries. Economic aid to Nicaragua was cut back sharply and oil shipments were subjected to a number of financial conditions, leading Nicaragua to turn to the Soviet Union for what quickly became the bulk of its petroleum supplies. Sandinista leaders travel to Mexico less frequently and more discreetly than before. Two and a half years into his 6-year term of office, de la Madrid has yet to visit Nicaragua or Cuba. Moreover, several Cuban diplomats have been either expelled from Mexico or quietly asked to leave.

Salvadoran insurgent leaders continue to hold press conferences and meet with foreign delegations in Mexico City, but they no longer enjoy their previous access to senior Mexican officials. Nor do they remain Mexico's main Salvadoran contacts: Foreign Minister Bernardo Sepúlveda Amor's attendance at Duarte's 1984 presidential inauguration was widely interpreted as a sign of rapprochement between the two governments. Finally, although refugees from Guatemala continue to enter Mexico, most of them have been more or less forcibly transferred to areas removed from the border, largely in response to pressure from the Guatemalan army.

But just as Mexico did not completely forgo mediation when it most ardently supported revolution, it has not entirely forsaken its revolutionary friends while pursuing conciliation. It continues to maintain closer and more trustful relations with Nicaragua than with any other Central American country; it improved its ties with Duarte but has not given them a higher standing than those it maintains with the FMLN-FDR. In spite of the distance it has put between itself and Cuba, communication, official travel, and consultations continue, in a way unique in all of Latin America.

A Regional Force for Change

Yet despite sporadic achievements, Mexico's first incursion into the tricky waters of international affairs has not met with resounding success. For if in 1982 Mexico had the option to shift from supporting revolution to mediating, in 1985 there are no such options left.

The failure of the Contadora effort, because of U.S. unwillingness to exchange an effective, albeit aggressive, probably illegal, and certainly unpopular (in Latin America) policy toward Central America for a well-intentioned, theoretically verifiable, but probably unenforceable document, is the main sign of Mexico's frustrated ambitions in Central America. Mexico cannot go back to aiding or sponsoring anti-American rebellions. An increasingly vocal and powerful conservative opposition probably would take to the streets, the United States doubtless would consider such action unfriendly, and the ensuing confrontation

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undoubtedly would be more than de la Madrid could bear after nearly 3 years of highly unpopular economic austerity.

But with no tangible results to show for its Contadora efforts, Mexico cannot continue pursuing the elusive, if not impossible, goal of "peace with honor for all in Central America." As might be expected, it has lost leverage with its former revolutionary allies, though they continue to view Mexico as a friend. Moreover, Mexican domestic support for any Central American involvement is rapidly eroding, partly because of growing disenchantment with everything the government does, and partly because of the conservative and isolationist drift that has been accelerated by economic ills. Yet a humiliating return to introspective isolationism also would endanger the political system's legitimacy. Mexico has literally no place left to go in Central America, yet has nowhere to go in international affairs other than Central America.

Washington obviously cannot entirely subordinate its Central America policy to Mexico's problems. Indeed, some might argue that, thanks to its well-deserved failure, Mexico finally can begin to act responsibly in the region. This view, probably as widely held in Mexican business and conservative circles as it is in Washington, may win debating points, but it reveals a basic misunderstanding of Mexican politics. True, Mexico strove to create a sphere of influence for itself in the Caribbean Basin partly out of delusions of grandeur, partly out of national ambition, and partly to have more leverage in its everyday, often prickly relationship with the United States. But traditional Mexican foreign posturing, if not a foreign policy in the strict sense of the word, has always played a key role in the delicate system of checks and balances upon which Mexican political legitimacy rests.

This key role has made foreign affairs the one realm of government action where the gap between the rhetoric of the revolution and actual policy is not outrageously wide. The Mexican political system might be able to function effectively without the progressive international stance that until now has neutralized its institutional left wing. Moreover,

Mexico's support for left-wing causes abroad has rarely been intended to placate the country's own extreme Left, which has always been dealt with through repression and corruption. The actual domestic purpose of Mexican foreign policy traditionally has been to silence or paralyze sectors of the Mexican establishment that at different times may have considered opposing the government from a leftist perspective because of its various domestic policies.

Such opposition was deemed illegitimate to the extent that it weakened the government's support for Republican Spain in the 1930s, the Allies during World War II, Castro's Cuba in the 1950s and 1960s, Salvador Allende's Chile in the 1970s, and the Nicaraguan and Salvadoran revolutionaries in the 1970s and 1980s. At the same time, official support for worthy causes abroad allowed many intellectuals and politicians in the Mexican establishment to continue supporting the government in other fields without losing face with their leftist colleagues. The current stability of Mexican politics—however tenuous—indicates at the least that foreign policy may be one contributing factor. And current U.S. policy in Central America has helped take this tool almost completely out of Mexican leaders' hands.

Because of the ever-present tensions in bilateral U.S.-Mexican affairs, Mexico cannot afford to follow U.S. policy in Central America to the letter, even if domestic support for such a course among the urban, U.S.-oriented middle classes is growing. In order for Mexico to make important concessions that Washington is currently pressing for on bilateral issues—most recently, the drug trade—it must be able to prove its independence in other ways. But if Mexico cannot support the United States or continue its Central America policy in any mode, then it has no foreign policy left at all. And if it has no foreign policy, Mexican politics must function without one of its most prominent features. This feature may be redundant. Yet it may also be indispensable to the system's ability to reproduce and maintain itself. No one knows, but the risk of finding out, at a time of deepening economic crisis, seems excessive.

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The United States should not humiliate Mexico and Central America, nor should it foreclose Mexican policy in the region. The Contadora process may not be a realistic way out of the Central American quagmire, and Mexico may not yet be the regional power that can conciliate the region's desire and need for change with key U.S. national security interests. But until now, whatever certain conservatives in the United States may think, Mexico has been part of the solution in Central America, not part of the problem.

In time, a Mexican government with sufficient domestic clout once again may be able to play an active role in the Caribbean Basin. If this activism coincides with greater realism on the part of the region's revolutionaries and, above all, with a much more precise and more realistic definition of U.S. national security interests in Central America and the Caribbean, Mexico may yet achieve its ambitious goals. Its recent record will serve it well in negotiations and revolutions to come. Eventually, the United States will have to define its regional stake in terms that do not change with every administration, with every secretary of state, with every national security adviser. Only then will Mexico be able effectively to foster needed change, overall stability, and geopolitical realism. Only views that are clearly spelled out, serious, and constant can be conciliated.

If Washington insists on underlining Mexico's present regional impotence; if it continues systematically to disqualify, reject, or wear down every Mexican attempt to further its current goals in Central America; if it leaves Mexico no choice but to withdraw from all international activity and simply to manage its day-to-day affairs with the United States, then Mexican instability may become a real danger no matter what happens in Central America. This instability is much less likely to take the form of a left-wing drift or takeover than of the slow breakdown of the finely tuned, delicately crafted, clockwork-like mechanisms that have guaranteed Mexico's political stability since the 1930s. A line in the sand, whether drawn by Ronald Reagan or by anyone else, cannot possibly be worth it.

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JAN 6 1986

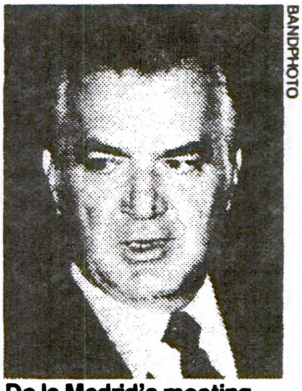
Mexico meeting spawns both hope and concern

By Dennis Volman
Staff writer of The Christian Science Monitor

Mexico City

The meeting between President Reagan and Mexico's President Miguel de la Madrid Hurtado has, like most aspects of the relationship between the United States and Mexico, caused mixed feelings among many Mexicans.

Although the dominant note following their meeting in Mexicali was positive, especially in Mexican government and business circles, many Mexicans remain wary of the economic and political restructuring that the US might demand in return for financial assistance.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De la Madrid's meeting with Reagan: a success

The US announcement at Friday's meeting that it would assist Mexico in getting $4 billion in aid from international organizations was a relief for the hard-pressed Mexican government, which has said for the last few months that it needed the assistance to get through 1986.

"The meeting," according to one ranking Mexican official, "was very positive. It marked the end of the lowest ebb in US-Mexican relations in recent years. More than anything else, the very fact that President Reagan came to Mexicali underscores the basic fact that the US recognizes that Mexican stability is vital to its own security interests, and that this stability is more important than anything else — more important than any difference of opinion between the two countries on Central America, or drugs, or any other issue."

Mexican officials believe that in the last few months the Reagan administration decided that there are limits beyond which Mexico cannot be pressured without endangering Mexican stability and US security. For several years, the US exerted severe economic pressure on Mexico in an effort to bring it into line with US policy on such issues as drug trafficking and Central America.

A year ago, Mexican officials not only feared that the US wanted to change aspects of Mexican policy, they were also concerned that the US wanted to overhaul Mexico's entire political system and attempt to end the more than 60-year one-party rule of the Institutional Revolutionary Party (PRI). But by the time of elections in July, most analysts in Mexico and Washington realized that such fears were exaggerated. A consensus had emerged in the Reagan administration that the only alternative to PRI rule was chaos.

The Mexicali meeting also underscored what most Mexicans see as the basic negative aspects underlying relations between the two countries.

As one source close to the Mexican government put it, "The Americans are willing to provide economic help, but entirely on their terms. What in effect they said in Mexicali was, 'We have shown our generosity, now the problem is in your hands. If Mexico wants financial assistance it must follow US economic dictates.' "

The US pledge to help raise $4 billion of economic assistance from multilateral financial institutions such as the World Bank and the International

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Monetary Fund is tied to the Baker Plan, a program put forth in October by US Treasury Secretary James Baker to help debtor countries pay off their debts.

The plan requires that, in exchange for multilateral assistance, the debtor countries make fundamental changes in their economies. Susan Kaufman Purcell, director of Latin American Programs for the New York-based Council on Foreign Relations, says the plan would require, in addition to the usual austerity measures, that the role of the state in the economy be sharply reduced and that of the private sector correspondingly strengthened. It would also mean the opening up of the economies of debtor countries to large-scale foreign trade and investment.

For many Mexican intellectuals and for the left, opening up the Mexican economy to foreign trade means opening it up to US economic domination. They object to it for nationalistic reasons and because they believe that, in the long run, these new trade relations would greatly increase social inequalities in Mexico and would largely benefit the wealthy.

According to Adolfo Aguilar, a prominent Mexican intellectual who takes this view, "The US was quite clear in Mexicali. It stated, 'If you want to have US and multilateral funding, you have to open yourself up to foreign, private investment. You know the rules of the game — you can either take it or leave it.' "

Ms. Purcell echoes the view of Mexican officials when she states that what the Baker plan offers in exchange for these politically painful measures is not enough. She says the plan talks of some US and international help in financing debtor-country interest payments.

"It does not face up to the fact," she said, "that the banks will, in the end, have to simply write off large portions of the debt. It also does not address the problem of high interest rates."

Many Mexicans had feared that the US would link financial assistance to a turnaround in Mexico's Central America policy. But this did not happen, according to Mexican official sources and to statements made by both sides after the talks.

Observers such as Mr. Aguilar, considered Mexcio's foremost analyst on Mexican-Central American relations, point out that in the last year or two Mexico has substantially changed its Central American policy. According to Aguilar and other observers it has, among other things, suspended oil shipments to Nicaragua, lowered its profile in attempts to peacefully negotiate the Central American crisis through the Contadora peace group, and cooperated with the Guatemala Army's antiguerrilla campaign by moving Guatemalan refugees away from the Mexican-Guatemalan border.

Aguilar shares the view of Don Wyman, acting director of the San Diego-based Center for US-Mexican Studies, who says that since Mexico has changed the substance of its Central American policy, the US has no need to make it turn around on its official rhetoric.

The Reagan administration has largely realized that the negative internal political fallout that would arise from the change in Mexico's public stance would be harmful to Mexican stability and therefore US interests, Mr. Wyman says.

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p. A15, A18

Mexicali Summit Extends Trend

U.S.-Mexican Ties Seen Warmer, With Divisive Issues in Abeyance

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, Jan. 5—The relatively cordial atmosphere at Friday's "border summit" between Presidents Reagan and Miguel de la Madrid reflected a trend toward warmer U.S.-Mexican relations that has been evident since last spring, according to diplomats and other analysts from both countries.

Two major developments last autumn have contributed to the warming of relations. First, Mexico scaled back its emphasis on trying to push the United States to reach an agreement with Nicaragua's leftist Sandinista government. Second, the U.S. administration scrapped its purely free-market approach to the Third World debt problem.

NEWS ANALYSIS

But the friendly tone of Friday's meeting could not conceal the persistence of fundamental differences between the two countries over Central America, Mexican domestic economic policies, and, to a lesser extent, narcotics trafficking. These disagreements will continue to simmer, and could boil over in the future, the analysts said.

"We should underline the positive aspects of [U.S.-Mexican] relations—progress and accomplishments—but we must also recognize their deficiencies and limitations," de la Madrid said in his toast to Reagan at a luncheon honoring the U.S. president in the dusty Mexican border city of Mexicali.

The four-hour meeting appears to have yielded no significant progress on any major issue between the two countries, but diplomats on both sides had played down any such expectations beforehand and stressed the routine nature of the meeting. The U.S. and Mexican presidents try to meet once a year, although scheduling conflicts prevented them from doing so in 1985.

"What is important is that they met. It focuses the attention of both bureaucracies on the issues and problems to be solved," a U.S. official said.

Since there were no concrete advances in the talks, attention focused on the generally positive climate.

"Each meeting seems more productive than the last," Reagan said in his toast to de la Madrid. Mexico's ambassador to Washington, Jorge Espinosa de los Reyes, said at a news conference after the talks, "Without doubt, it was a very cordial and very positive meeting."

Such comments were in contrast to the harsh ex-

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Mexican Relations With U.S. Seen As Improved

MEXICO, From A15

changes of last February, when U.S.-Mexican relations reached their lowest point in years following the abduction and subsequent slaying of U.S. Drug Enforcement Administration agent Enrique Camarena Salazar in the Mexican city of Guadalajara. At that time, the United States brought cross-border traffic to a near standstill by staging vehicle-by-vehicle searches to pressure Mexican authorities to investigate the case.

A senior Mexican official said after Friday's meeting that relations with the United States have been improving steadily since the Camarena killing. The U.S. pressure led the Mexicans to arrest several suspected leading drug traffickers in connection with the killing, although none has yet been brought to trial.

U.S. officials praised the Mexican government for improvements in its commitment this year to fighting narcotics traffic. A senior U.S. administration official said, however, that there continues to be "a great deal of corruption" within the government that permits drug trafficking and that "there is no question that some of it goes to quite high levels."

A factor in the improvement in relations has been Mexico's recognition that it was not getting anywhere in its effort to persuade the United States to reach a negotiated settlement with Nicaragua. De la Madrid toned down his public criticisms of U.S. policy on Central America and reportedly devoted only a small percentage of time at the talks to the issue.

Except for Cuba, Mexico has been Nicaragua's closest friend in Latin America. In particular, the government here has defended Nicaraguan interests in meetings of the Contadora group, which is seeking a negotiated settlement of Central America's conflicts.

Foreign Secretary Bernardo Sepulveda said Friday that Mexico "reaffirmed in a very emphatic manner" the necessity of maintaining a dialogue in Central America. But the previously cited senior Mexican official acknowledged that "the spaces in which to proceed with peace initiatives are not generous." He attributed this to a "radicalization" of positions by both Nicaragua and the United States during the past year.

As a result, other Mexican officials said, the government focused more attention at this meeting on bilateral issues, particularly on economic ones. Mexico was encouraged to do so by the "Baker Plan," named for U.S. Treasury Secretary James A. Baker III.

The plan calls for the U.S. government to help persuade private banks and international lending institutions to make fresh loans to Third World debtors. In return, the debtors are to put their economic houses in order by trimming their government budget deficits, fighting inflation and promoting private investment.

The importance of the Baker plan, from Mexico's point of view, is that it recognizes that the U.S. government must lend a hand in managing the enormous foreign debt burdens of Mexico and other Third World countries, such as Brazil and Argentina. Prior to last autumn's announcement of the Baker plan, the U.S. administration had maintained that the debt problem was a matter for the debtors and their bankers to solve.

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American Relations

WHEN THE UNITED STATES sneezes, Mexico catches a cold" is an aphorism that has held true for decades. And a Mexico weakened by the debt crisis, a failing economy and a destructive earthquake is much more likely to be affected by U.S. policy decisions than a healthy Mexico would be. Mexico is America's third-largest trading partner behind only Canada and Japan, and is the largest supplier of crude oil to this country. The U.S.-Mexican trade amounted to $30 billion last year.

Cooperation between the United States and Mexico has been unusually close during the debt crisis of the past three years and will undoubtedly intensify as Mexico tries to make a comeback from the earthquake disaster. There are, however, a number of issues outstanding between the two countries which continue to complicate their relations.

Trans-border migration is a subject of concern in both countries, but for quite different reasons. In general, Mexicans look on emigration — both legal and illegal — to the land they know as *el norte* (the north) as a safety valve, relieving the pressures of excess population growth and high unemployment. Americans on the other hand, see illegal immigrants as a threat, creating low-paid competition in the job market and a drain on social services and welfare systems.[10] For that reason, two Mexican-affairs specialists have written, "Immigration has never been addressed consistently by the two governments." [11]

Last year 57,557 Mexicans legally emigrated to the United States to become permanent residents. During fiscal year 1985, which ended Sept. 30, the U.S. Immigration and Naturalization Service (INS) apprehended a record number, 1,265,054, trying to slip across the border. But INS officials acknowledge that many more than that came across without being caught.

The Census Bureau estimated, on the basis of calculations it could derive from the census in 1980, that there were then about two million illegal aliens in the United States and that Mexicans accounted for the majority of them. Some U.S. officials today believe the real figure is between 3.5 million and six million, and probably toward the lower end of the scale. In the 1980 census, 14.6 million people — 6.4 percent of the U.S. population — identified themselves as "Hispanic," of which 60 percent were

[10] See "Illegal Immigrants," *E.R.R.*, 1976 Vol. II, pp. 909-928.

[11] Guy R. Erb and Cathryn Thorup, *U.S.-Mexican Relations: The Issues Ahead*, Overseas Development Council, 1984, p. 24. He is chairman of the U.S.-Mexico Policy Committee of the Overseas Development Council, and she is director of the council's U.S.-Mexico Project. The council, based in Washington, is non-governmental.

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Mexican-American. They lived primarily in the American Southwest.[12]

In recent years, the U.S. approach to the problem of illegal aliens has been to seek legislation in Congress to strengthen the immigration law. The Mexican government has strongly objected that any closing of the safety valve could upset Mexico's political stability. Immigration revision failed in the 97th and 98th Congresses, but another try is being made in the 99th. In September, the Senate approved by a vote of 69-30 a bill introduced by Sen. Alan K. Simpson (R-Wyo.) to make it less attractive for employers to hire illegal aliens; the employers could be fined up to $10,000.

Two especially controversial sections of the bill would grant permanent resident status to illegal aliens who entered the United States before Jan. 1, 1980, and permit 350,000 alien workers to enter the country temporarily to harvest perishable crops. The aliens could stay in the United States up to nine months a year and move from farm to farm within a defined area. The so-called "guest worker" provision would remain in effect for three years.

Immigration legislation was also introduced by Rep. Peter W. Rodino Jr. (D-N.J.), chairman of the House Judiciary Committee. The Rodino bill would grant resident status to aliens who entered the country before Jan. 1, 1982, and would impose criminal as well as civil penalties on employers who hired illegal aliens. The House bill contains no guest worker provisions. Observers foresee difficulty in reconciling the two bills if the Rodino plan passes the House.

Because the U.S. and Mexican economies and populations are so intertwined along their border, the two countries have signed a number of agreements. They deal with natural disaster assistance, oil spill contingency planning, shipments of hazardous wastes, housing and urban development, customs cooperation,

[12] The census did not ask about legality. The two million figure is based on the difference between the total number of resident aliens counted by the census and the number of legal aliens who registered with the INS. See Courtenay Slater, "The Illegals," *American Demographics* magazine, January 1985, pp. 26-29. Also see "Hispanic America," *E.R.R.*, 1982 Vol. II, pp. 549-568.

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border crossing and international bridges, border health and sanitation problems, and other matters. In recent months, the two countries have been negotiating a new accord on controlling emissions from copper smelters on both sides of the border.

Mexican Effort to Stop Drug Smuggling

For the past decade, the United States has funded a drug eradication program in Mexico aimed at wiping out clandestine fields of *cannabis sativa* plants, the source of marijuana, and *papaver somniferum* poppies from which morphine and opium are derived. The campaign has enjoyed considerable success. Since 1975, according to the U.S. State Department, Mexico has ceased to be the main supplier of heroin and marijuana used in the United States.[13]

The slump in Mexico's economy has cut into efforts to combat illicit drug production there, although the eradication programs have not been curtailed completely. "There has been a retrogression in Mexico," said John Cusack, chief of staff of the House Narcotics Committee, earlier this year. "Marijuana production has come back. Opium is scattered. Smaller plots were developed and heroin manufacturing is increasing and the quality and quantity are increasing."

Drug trafficking was at the center of a brief flare-up in U.S.-Mexican relations earlier this year. Enrique Camarena Salazar, a U.S. Drug Enforcement Agency (DEA) officer, was kidnapped Feb. 7 by four machine-gun-toting men on the streets of Guadalajara, where he was assigned to undercover work. The DEA agent's body was found March 6, but in the meantime the United States put into effect an intensive border-inspection program, ostensibly to search for Camarena and his abductors but more likely to express Washington's resentment of the Mexican foot-dragging in the case. The car-by-car search paralyzed daily commuter traffic between the two countries and outraged Mexican officials who said the operation had been launched without following the established procedure of notifying Mexico City before implementing the order.

John Gavin, the U.S. ambassador to Mexico, was summoned to Washington on Feb. 20 for two days of talks to convey U.S. annoyance with Mexico's actions. While in Washington, Gavin suggested publicly that Americans be cautioned about traveling in the Guadalajara region where Camarena was abducted. Mexican officials charged that Gavin's remarks were calculated to intimidate them by threatening the Mexican tourist industry.[14]

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[13] The decline was from 75 to 35 percent of the heroin and from 70 to 10 percent of the marijuana. See "The Fight Against Drug Smuggling," *E.R.R.*, 1985 Vol. I, p. 103. See also Richard C. Schroeder's *The Politics of Drugs: An American Dilemma* (2nd ed., 1980).

[14] See "U.S.-Mexican Relations Strained," *Washington Report on the Hemisphere* (publication of the Council on Hemispheric Affairs), March 19, 1985, pp. 1, 6-7.

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The drug-related controversies were smoothed over in meetings between Secretary of State George P. Shultz and Mexican Foreign Minister Bernardo Sepulveda in July and between U.S. Attorney General Edwin Meese III and his Mexican counterpart, Sergio Garcia Ramirez, in August. Sepulveda said that a coordinated U.S.-Mexican effort to round up drug traffickers in both countries was the main topic of discussion.

Protectionist Threat to Bilateral Trade

In its search for sources of foreign exchange, the government of President de la Madrid has made a strong and largely successful effort to boost Mexican exports, especially those destined for the United States. Mexico's trade surplus with the United States more than doubled in 1983, rising to $7.7 billion, though declining slightly to $6.3 billion last year. Exports to the United States, which stood at $11.8 billion in 1982, topped $18 billion in 1984.

But Mexico's success in stimulating exports is causing problems in the United States, where U.S. producers are demanding protection by the government against what they say is unfair Mexican competition. Mexican officials charge that protectionism is on the rise in the United States, and that it threatens their economic prospects.

In recent years, countervailing duties — additional tariffs — have been applied to Mexican exports in 13 of the 23 cases brought before the U.S. International Trade Commission on charges that the exports were subsidized in violation of accepted trade practices. Under pressure, Mexico agreed late last year to curtail sharply its steel shipments to the United States, cutting its 1983 export level of 608,000 tons to an annual ceiling of 393,000 tons. Mexico is Latin America's second-biggest steel producer, after Brazil. Its 1984 output was 8.1 million tons. Mexican steel companies plan to spend $4 billion on new installations in the next four years, according to Sidermex, the state-owned firm that produces 60 percent of the country's steel. As Mexico expands its installed capacity, pressure will mount for freer access to the United States market.

On the positive side of trade relations with the United States, some $1 billion worth of Mexican exports entered the United States duty-free last year. But even here, Mexico is resentful that some of its more successful exports have been "graduated" from the list — denied duty-free privileges on the grounds that they have reached a relatively advanced stage of competitiveness in international markets. In 1984, Mexico lost duty-free treatment on nearly $135 million in exports to the United States. Mexican officials say that not all the products were "graduated" because of strictly competitive criteria, citing the

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case of Mexican beer which was removed from the duty-free list under pressure from U.S. brewers who faced trade restrictions in the Mexican market.

In April 1984, the United States and Mexico signed a new trade accord that analysts say could greatly increase the flow of goods across the border. Officially designated as an "understanding," the pact is the first trade agreement between the two countries in more than 40 years. Mexico agreed to eliminate its export subsidies and to exercise restraint in granting domestic production subsidies. In return, the United States agreed not to levy countervailing duties against subsidized imports from Mexico unless it is proven that such imports injure or threaten to injure U.S. producers. Countervailing duty orders currently in effect against Mexican products would not be lifted by the agreement. Trade experts say that injury is generally difficult for U.S. manufacturers to prove.

Conflict Over Central American Policy

Mexico and the United States seem to be pursuing diametrically opposed policies in Cental America, and the divergence is one of the more serious disagreements between them. As a leader of the so-called "Contadora" group of four Latin American countries[15] seeking to mediate Central American conflicts, Mexico seeks a negotiated end to the fighting in Nicaragua and El Salvador. It also argues that the Sandinista government of Nicaragua is here to stay and that the future course of that government can be influenced to become more democratic.

The United States, under the Reagan administration, takes an opposing stance. President Reagan has said that he seeks the removal of Nicaragua's Sandinista government.[16] The administration supports the counterrevolutionary ("contra") forces battling the Sandinista government and provides the government of El Salvador with extensive military assistance in its struggle against anti-government guerrillas in that country. President Reagan, Secretary of State Shultz and other senior officials have warned that if other policies fail, the United States may have little choice in the years ahead but to invade Nicaragua.

Bellicose talk coming out of Washington has alarmed Mexico and the other Contadora nations. The Contadora countries, said one authority, "are convinced that full-scale war in Central America would upset the balance of interests that is the sole guarantor of their democracies." He added: "By ignoring these calculations, the United States has put itself on a collision

[15] Mexico, Panama, Colombia and Venezuela; the name is taken from the Panamanian island of Contadora where the foreign ministers of the four countries first met in early 1983.

[16] In a news conference on Feb. 21, 1985, for example, Reagan declared that his objective was to "remove" the "present structure" of the government in Nicaragua.

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course with countries that share its security concerns and that could be useful partners." [17]

The United States has publicly supported the mediation efforts of the Contadora group, but has worked behind the scenes to forestall any effective action by the group. A draft treaty, or "Acta," was presented to the Central American countries by the Contadora group in September 1984, calling for democracy and national reconciliation, an end to support for paramilitary forces across borders, control of the regional arms race, reduction of foreign military advisers and troops, and prohibition of foreign military bases. The United States quickly rejected it and applied pressure to its Central American allies to do the same.[18]

In the view of some observers, that action by the United States not only derailed the Contadora effort — which still goes on but with much more limited prospects of success — but also effectively ended Mexico's ambitious attempt to assert its influence in Central America. Jorge G. Castaneda, a former adviser to the Mexican government, has written that "although it may not be evident today, the demise of Mexico's foreign policy may prove to be one of the most serious casualties of Reagan's Central America policy."

Castaneda goes on to caution: "If Washington insists on underlining Mexico's present regional impotence; if it continues systematically to disqualify, reject or wear down every Mexican attempt to further its goals in Central America; if it leaves Mexico no choice but to withdraw from all international activity and simply to manage its day-to-day affairs with the United States, then Mexican instability may become a real danger no matter what happens in Central America." [19]

Internal Challenges

THIS YEAR, demographers calculate, Mexico City overtook Tokyo-Yokohama, Japan, as the world's most heavily populated metropolis. That is a distinction that many of Mexico City's 18 million residents would abjure if they could. They are already assailed by overcrowding, slums, traffic congestion and polluted air.

[17] Tom J. Farer, "Contadora: The Hidden Agenda," *Foreign Policy*, summer 1985, pp. 59-72. Farer is president of the University of New Mexico.

[18] See Susan Kaufman Purcell's "Demystifying Contadora," *Foreign Affairs*, fall 1985, p. 77. Purcell is director of the Latin American Program of the Council on Foreign Relations.

[19] Jorge G. Castaneda, "Don't Corner Mexico!" *Foreign Policy*, fall 1985, pp. 75-90. Castaneda was an adviser to the Mexican government on Central American affairs from 1979 to 1982 and is currently a senior associate of the Carnegie Endowment for International Peace.

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JAN 5 1986

U.S. and Mexico Meet

A Show of Unity Along the Border

By WILLIAM STOCKTON

MEXICALI, MEXICO

THE most important result to emerge from the meeting Friday between President Reagan and President Miguel de la Madrid Hurtado of Mexico is probably the fact that nothing dramatic occurred, there were no sharp disagreements or clashes.

"What we want most to show the de la Madrid Administration is our support, to give it a shot in the arm," an American diplomat said. Both countries were careful to avoid the appearance of substantial differences, leaving for continued discussion at lower levels such outstanding issues as immigration, trade, pollution and fishing rights.

The United States in particular went to lengths to emphasize good relations. Mexican newspapers gave prominent display earlier in the week to articles based on Mr. Reagan's answers to written questions submitted by Notimex, the Mexican Government news service. Mr. Reagan compared the complexity of Washington's relations with Mexico to those with Japan, the United Kingdom and France, suggesting Mexico's importance, which many Mexicans have long felt was not sufficiently appreciated.

"I expect our relations with Mexico to continue to improve in the future," he said, adding that the relationship "is a model of what two countries can accomplish if they respect each other's sovereignty and are determined to cooperate."

Senior Mexican officials were frankly delighted. Before the meeting, they passed around a New York Times article that said Mr. Reagan was expected to assure Mr. de la Madrid of United States help in obtaining a badly needed $4 billion in additional international loans.

In his remarks at Mexicali, Mr. Reagan also took pains not to challenge the Mexicans or open old sores. He avoided mention of sharp differences over Central America. However, in his radio address yesterday, Mr. Reagan said he had reminded Mr. de la Madrid of his condemnation of "ruthless regimes like the Communist dictatorship in Nicaragua." As for drug trafficking, which strained relations last year when an American drug agent was kidnapped in Guadalajara and murdered, Mr. Reagan mentioned the agent, Enrique Camarena Salazar. But he linked the American's death to the murders of 22 Mexican police officers and associates by drug traffickers. "There are tears on both sides of the border," he said, "for the Mexican policemen killed recently in the state of Veracruz."

The underlying United States desire is to see Mexico solve its severe economic problems, which include $96 billion of foreign debt, 60 percent inflation and deficit spending that exceeds 9 percent of the gross domestic product. The unspoken fear is that, should Mexico's problems significantly worsen, they could lead to social unrest that might spur illegal immigration into the United States and even threaten the stability of Mexico. Mr. de la Madrid is halfway through his six-year term as President and cannot serve another term. He has worked hard to bring the economy under control. American officials, many economists and bankers give his efforts good marks. But the price of crude oil, which brought Mexico nearly $15 billion last year, has been falling, and austere federal budgets have become even more austere.

Balancing Act

Mr. de la Madrid has been gradually steering his economy on a new course, selling off some of the myriad Government-owned industries and seeking to increase non-oil exports. Mexico recently applied for admission to the General Agreement on Tariffs and Trade, a move that had been passionately debated in industrial, political and economic circles for years.

To make such changes, Mr. de la Madrid must maneuver carefully, balancing the many factions in the Revolutionary Institutional Party, which has ruled for decades. The party includes broad sections of society, including labor, the rural poor, groups to the left and to the right, the military and some business people.

Mr. de la Madrid needs the United States to solve Mexico's problems. But his Government has to avoid seeming too close to Washington lest "people attack them for getting too close to the gringos, of taking orders," a senior Reagan Administration official said.

Mexican officials seemed pleased after the Mexicali meeting. Several members of Mr. de la Madrid's cabinet, speaking to the Mexican press, repeatedly stressed the cordial nature of the talks and the respect with which their positions were received. They clearly expected the meeting to play well back in Mexico City.

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JUN 1 1985 p. A15

U.S.-Mexican Ties Warm a Little

Officials Seek to Ease Tensions After Drug-Trafficking Disputes

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY—A frost in U.S.-Mexican relations early this year has thawed somewhat after both countries, seeking to avoid confrontation, acted to ease tensions, Mexican and U.S. officials said.

The U.S. government has toned down in recent weeks comments on such problems here as drug trafficking and assaults on tourists. The Mexicans have moderated their public complaints about U.S. "intervention" in Mexican affairs, and the government has advised the media to soften criticism of Ambassador John Gavin, Mexican officials said. A long delayed bilateral trade accord was signed in late April.

But it is too early to say whether the improvement will be permanent following a serious dispute three months ago over narcotics trafficking, according to officials of Mexico's governing Institutional Revolutionary Party, academic specialists in U.S.-Mexican relations and diplomats. The flare-up illuminated an overall heightening of tensions between the two countries during 1984, the sources said.

The two countries' diplomats "don't say it publicly, but there has been a serious deterioration in relations with the United States," said a Mexican party official, who requested anonymity.

In this view, disputes on issues ranging from immigration control to the ambassador's feisty style built up to what Mexican officials privately termed a "crisis" in February, when Washington ordered vehicle-by-vehicle searches of Mexican cars and trucks entering the United States.

Such extensive checks had not been seen since an antidrug campaign, nicknamed Operation Intercept, during the first Nixon administration. Then, most checks were of U.S. vehicles returning home.

The U.S. measure was designed to pressure the government here to speed up the investigation of the killing of a U.S. Drug Enforcement Administration officer. Mexican officials said they were particularly irritated that Washington did not give them advance notice.

"Within these last months, U.S. actions against Mexico have hurt the Mexicans' pride," a senior Mexican administration official said. Gavin said that relations were good overall, but he noted that the DEA agent's case "brought to a head some very serious problems" regarding narcotics trafficking.

Washington has displayed "an irritating change in public attitudes and in the official responses to what happens in Mexico, passing from a benign indifference to a unilateral protectionism," wrote Wayne Cornelius, director of a U.S.-Mexican studies department at the University of California at San Diego, in the May issue of the Mexican magazine Nexos. He said the United States was showing "a renewed interventionist impulse."

Both governments agree that friendly ties are a high priority for myriad reasons. The two countries share a 1,800-mile border crossed each year by millions of tourists, most heading south, and millions of job-seekers heading north. Mexico is the number one supplier of oil to the United States, and U.S. banks hold the largest share of Mexico's $95 billion foreign debt.

It is widely recognized that nationalism frequently leads Mexicans to bridle at even minor indications that its wealthy, superpower neighbor is trying to push it around.

"Maybe what they mean is that we treat them as if they were grown-ups," Gavin said in an interview when asked about suggestions that the United States has been using more muscle.

Some observers say a change in attitude started last summer, when the U.S. Congress came close to approving the Simpson-Mazzoli bill, a sweeping proposal to curb illegal immigration. Mexico opposed it, largely because emigration helps ease problems of unemployment and overpopulation and because of what was called the debate's "anti-Mexican tone."

Even though the bill died, the government was unhappy that the United States even considered it.

In September, attention turned to a public statement by Gavin that the U.S. government was considering issuance of a formal travel advisory to warn tourists about dangers of visiting Mexico. It would have been the first since 1976, and was perceived as a serious threat to the tourism industry, Mexico's second-largest source of foreign exchange.

The ambassador's statement was prompted principally by foot-dragging by Mexican authorities in investigating cases of killings and other crimes against U.S. citizens, American officials said. Mexico responded that the number of crimes is not excessive compared with the number of tourists, although at Gavin's suggestion the government began a program to help foreigners get legal assistance.

The embassy and State Department now are fighting congressional proposals to declare a travel advisory. The publicity has led some insurance companies to refuse coverage for tour groups visiting here.

Gavin's activities sparked another dispute later in the autumn, when he had lunch in the northwestern state of Sonora with local authorities who were members of the opposition National Action Party. The governing party, which faces a major challenge in Sonora from National Action in July 7 elections, accused the ambassador of intervening in Mexican politics by purportedly showing favor for the opposition.

The ruling party clearly played up the incident for political advantage. It regularly tries to paint National Action, a conservative group, as a pawn or an agent of U.S. interests. Representatives of the ruling party also were scheduled to attend the lunch but canceled at the last minute, U.S. officials said.

Gavin has become an issue, in part because he regularly responds in strong terms to public criticism. In an incident last month, which contrasted with the recently improved tone but was typical of earlier exchanges, Mexican Sen. Gonzalo Martinez of the Senate's foreign relations committee, accused the envoy of "belligerence and lack of common sense." Gavin immediately had the embassy respond with a statement rejecting the remarks as "unfounded and scurrilous."

Asked why he responds to criticism in such terms, Gavin said, "We do not believe that playing scapegoat for certain elements in this society leads to a mature relationship. We do believe that respect is a two-way street."

A Mexican administration official credited Gavin with defending Mexican interests against what he called the "hard-liners in Washington," but he said that the ambassador's "style" hurt relations. "He's very imprudent. That's his main problem," said the official, who declined to criticize Gavin on the record.

The issue of personal attacks on Gavin became serious enough that it was raised at a meeting in early April between the ambassador and President Miguel de la Madrid, according to a reliable source. At that meeting, the source said, "it was recognized at the highest level that it is not helpful to continue these attacks" against the ambassador.

That meeting appears to have contributed to the recent mellowing. Other factors were arrests of three accused leading drug traffickers and the signing of a trade accord.

One measure of the degree of concern was a government request to newspapers not to publish the ugly caricatures of Gavin and of President Reagan that had been appearing, a Mexican official said.

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JAN 2 1986

Summit South

Friday's meeting in Mexicali between President Reagan and Mexico's President Miguel de la Madrid will not be as dramatic as other summits that Reagan has had with world leaders. But that does not diminish its importance.

For the first time in the series of meetings between Reagan and De la Madrid, no one anticipates public disagreement between Mexican and U.S. officials over Central America. With Mexico facing a worsened economic situation since earthquakes ravaged the heart of the nation in September, government leaders have focused most of their attention on internal matters.

Since the crisis in Central America began in 1979 with the overthrow of Nicaragua's dictatorship by a leftist revolution, Mexican leaders have tried to calm Washington's fears about what is happening in that volatile region. U.S. officials, especially those appointed by Reagan, insist that the Nicaraguan revolution and guerrilla insurgencies in El Salvador and Guatemala are part and parcel of the struggle between the Soviet Bloc and the Western allies. The Mexicans consistently strive to remind them that Central America's problems also stem from historic social and political injustices there.

More important, Mexico and the other nations of the Contadora Group (Venezuela, Colombia and Panama) have tried to offer a diplomatic alternative to Reagan's heavy-handed policies in Central America. While the Administration has poured large amounts of military aid into El Salvador and Honduras, and has waged a barely covert campaign to overthrow the Sandinista regime in Nicaragua, Mexican diplomats have patiently tried to draw up a peace treaty that they hope will keep the five Central American countries from warring with each other long enough to resolve their internal problems. This Contadora process has been slow and frustrating. Recently the countries involved agreed to delay their peacemaking efforts until later this year, when new governments are installed in Honduras, Guatemala and Costa Rica. Some fear that this is the end of Contadora, but it is vital that the peace process continue.

Mexico's unfortunately diminished interest in Central America will put the focus of the Reagan-De la Madrid summit back on bilateral issues between the United States and its southern neighbor. Whenever that happens, people on both sides of the border realize again how complicated and important the historic relationship between the two nations is.

The key issues that the two leaders will discuss Friday are economic. After two years of moderate success in dealing with Mexico's economic troubles, 1985 was a bad year for De la Madrid. The trade surplus that his government had relied on to repay Mexico's $96-billion foreign debt has been shrinking because of the continuing drop in oil prices. Now the debt problem has been exacerbated by the multibillion-dollar cost of earthquake relief and reconstruction. More than ever, Mexico needs flexibility from its creditors.

The Mexican government is trying to obtain $2.5 billion in new economic assistance for 1986. One useful gesture that Reagan can make is to offer whatever assistance he can to help Mexico get that money. In exchange, he should urge De la Madrid to continue his efforts to liberalize Mexico's economy. One important step in that direction was De la Madrid's recent decision that Mexico would sign the General Agreement on Tariffs and Trade. More forceful action like that, which helps prod Mexico toward a free-market system, is needed.

There was speculation in the aftermath of September's earthquakes that Mexico's days as a model of political stability and economic progress in Latin America were over. Such alarms are premature. With a diversified industrial base, vast petroleum reserves, large internal markets and a flexible political system, Mexico still has great potential. In spite of periodic differences and squabbles, the long-term relationship between Mexico and the United States must remain positive and constructive. Periodic presidential summits help keep it that way.

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JAN 4 1986 p.

Reagan, Mexican President Meet Amicably

Leaders Endorse Conference of Latin Nations' Law Enforcers on Stemming Narcotics Flow

By Lou Cannon and Robert J. McCartney
Washington Post Staff Writers

MEXICALI, Mexico, Jan. 3—President Reagan met with Mexican President Miguel de la Madrid today and praised his government's efforts to repair its damaged economy and curb international narcotics traffic.

After the meeting, U.S. officials said Reagan had agreed to a Mexican proposal for a "law enforcement summit" at which attorneys general of several Latin American countries would coordinate efforts to stem the international drug flow.

The fourth meeting of the two leaders was described by officials of both sides as harmonious, in contrast to some previous sessions. On Aug. 14, 1983, in La Paz, Mexico, de la Madrid bluntly told Reagan that regional stability in Central America was threatened by U.S. shows of force, "which threaten to touch off a conflagration."

Today the two presidents barely mentioned their differences on Central America in their public statements, although de la Madrid reaffirmed Mexican support for a negotiated settlement in Nicaragua.

Reagan and de la Madrid spent only 10 minutes discussing Central America in the almost two hours of formal talks before lunch, a Mexican administration official said. U.S. officials said that Reagan in private, without pressing the point, reiterated his view that Nicaragua was the principal source of terrorism and subversion in Central America.

Reagan also objected to Mexican support for United Nations resolutions sharply critical of U.S. activities in the region and of what one U.S. official termed "name-calling" resolutions on such issues as Namibia and South Africa.

But Reagan, like his Mexican counterpart, also was more conciliatory on Central America than in the past. In a toast, the American president approvingly quoted from a recent de la Madrid statement praising the advance of democracy in Latin America.

The emphasis today was on economic issues. Mexico, where the annual rate of inflation is 60 percent, is struggling to recover from an economic crisis and a foreign debt of nearly $100 billion, the second-largest in the Third World.

The United States has put forward the Baker Plan, named after Treasury Secretary James A. Baker III, who attended today's meetings, to help solve Mexico's problems. It calls for less government intervention, reliance on more private financing and economic reforms.

De la Madrid lauded the proposal, which he called "a step forward," and said he hoped it would become "the starting point for imaginative, efficient formulas."

Mexican Treasury Secretary Jesus Silva Herzog said after the meeting that the Baker Plan did not represent "the definitive solution" for Third World indebtedness but that it was "constructive, positive and useful."

At a luncheon in Reagan's honor, de la Madrid said "Mexicans have made increasingly strenuous efforts in the last years to cope with the country's severe economic crisis." While some U.S. officials have criticized Mexican efforts as insufficient, Reagan responded positively to de la Madrid's declaration.

"Mexico's debt burden remains a serious challenge," Reagan said in a toast. "But I am impressed with the commitment that you have made, Mr. President, to meet this challenge and to take the necessary steps to achieve a robust, growing economy."

Reagan also expressed appreciation for Mexican attempts to curb the flow of narcotics into the United States.

"America joins with you in mourning the death of those valued Mexican officials who have been killed in the struggle against narcotics," Reagan said. "There are tears on both sides of the border for the Mexican policemen killed recently. They have shown honor and courage that transcends international boundaries." Twenty-two policemen were killed Nov. 1 in a narcotics-related shootout in the gulf state of Veracruz.

Reagan also paid tribute to a U.S. Drug Enforcement Administration agent, Enrique Camarena, who was kidnaped in Mexico Feb. 7 and whose body was found April 5. Reagan said Camarena, who was born in Mexicali, was "brutally murdered in the line of duty," and called him "an American hero."

Several alleged drug dealers have been arrested in the slaying, but none has been brought to trial.

Reagan met briefly with Camarena's widow, Mika, this morning at El Centro Naval Air Station in California. Afterward she told a reporter that Reagan had promised to "talk to de la Madrid about my husband's investigation."

Camarena "gave his life for all of us in the fight against the drug trafficking," Reagan said in a brief speech in El Centro.

Later in the day a memorial service was held for Camarena in Calexico, Calif., a small farming town across the border from Mexicali where he was raised. It was attended by John Gavin, the U.S. ambassador to Mexico.

White House officials said Thursday in Los Angeles that U.S.-Mexican cooperation against narcotics traffickers had increased notably since the killing of Camarena.

Despite this cooperation, the U.S. officials said that the drug traffic flow into the United States from Mexico is increasing because, as one said, "the traffickers are extremely rich and extremely powerful, and as we step up our efforts and the government of Mexico steps up its efforts, the traffickers step up theirs."

In his luncheon speech, de la Madrid called drug trafficking a "terrible" crime and said concerted efforts must be made against it.

"The drug trafficking problem will continue to call for priority actions by our governments," the Mexican leader said. "We must act simultaneously and in coordination, with equal force and effectiveness, to do away with" narcotics.

De la Madrid welcomed Reagan at a colorful ceremony in which 21-gun salutes for each president sent smoke drifting across the reviewing stand.

Reagan later flew to Andrews Air Force Base, Md., ending a week-long vacation.

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U.S. Ambassador to Mexico Quits After Controversial Tour of Duty

By Lou Cannon
Washington Post Staff Writer

John Gavin, the outspoken U.S. ambassador to Mexico and fervent defender of administration policies in Central America, resigned abruptly yesterday, saying that he was leaving "to return to the private sector and explore new challenges."

Like the president he served, Gavin is a former actor who turned to politics and became a hero to conservatives. Last year nine conservative U.S. senators appealed successfully to President Reagan to retain Gavin, one of a group of political appointees that State Department officials had intended to replace or rotate.

Gavin announced his resignation, effective May 15, to several hundred embassy officials and reporters in Mexico City, reading a letter he had sent to Reagan declaring he had "accomplished the major tasks you set for me." Later in the day he talked to the president by telephone.

White House Deputy Press Secretary Edward P. Djerejian said Gavin was "under pressure to stay" from Reagan, who in their conversation praised the ambassador for doing "a great job" during his five years in Mexico.

While the timing of the resignation, a day before Gavin's 54th birthday, caught administration officials by surprise, friends of the ambassador said he had been talking about leaving for some time.

Republican political sources said that Gavin earlier this year actively explored running as a GOP candidate for the U.S. Senate in California but decided against it because the field is heavily crowded.

While foreign policy professionals complained at the time of his appointment that Gavin was unqualified for the Mexican ambassadorship, his defenders pointed out that he had been born in Mexico, spoke fluent Spanish and held a degree in Latin American economics from Stanford University.

But he quickly became controversial in Mexico, where his friendship with Reagan "made him something of a lone wolf who was resented by more orthodox diplomats at State," according to a U.S. official.

Robert McCartney of the Washington Post Foreign Service reported from Mexico City that "the Mexican media and some Mexican government officials criticized Gavin for his frequently outspoken comments about Mexico."

At a Feb. 6 news conference, Gavin implicitly criticized the Mexican government over its handling of the case of Enrique Camarena, a U.S. drug enforcement agent murdered in Mexico in 1985. Gavin also was outspoken in behalf of administration attempts to provide military aid to the anti-Sandinista rebels, which the Mexican government opposes.

Gavin was also controversial at the White House, where he was defended by former national security affairs adviser William P. Clark, a high school classmate, and opposed by Michael K. Deaver, Reagan's closest aide until he resigned to become a high-paid Washington lobbyist.

Last week New York Times columnist William Safire said that Deaver, while still in the White House, tried to persuade Gavin through an intermediary to quit and was "hotly refused" by the ambassador. Deaver, whose present clients include the Mexican government, was unavailable for comment yesterday.

Lawrence Birns, director of the Council on Hemispheric Affairs, a liberal organization, yesterday criticized Gavin for "flagrant interference in the domestic affairs of Mexico" and said he should be replaced by a career diplomat.

JOHN GAVIN
... wants to "explore new challenges"

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The Economist

APRIL 5 1986

Awkward neighbours

Mexico is, as Ronald Reagan might put it, only a 15-minute drive from Harlingen, Texas. The intimacy of Mexico's relations with the United States has been a matter that concerned only those two in the past. But Mexico is now a country in trouble, and its trouble will affect the world.

In a week when the spot-market price of oil dipped below $10 a barrel, most people will think that Mexico's plight is financial. That, of course, is part of it. Although cheaper oil brings great benefits to the world as a whole, it will bring grief to a few: the businesses that serve the oil industry, the banks that have overlent to them and the countries that export oil. Of those countries, Mexico is the most precarious. Before the fall in oil, Mexico was already having trouble servicing its $97 billion foreign debt; and last year 70% of its export earnings came from oil. In the present talks with its creditors, Mexico deserves several billion dollars in new loans to help it adjust to an oil-price decline far steeper than anybody thought possible six months ago.

But Mexico faces much graver difficulties than the loss of a few billion dollars. Its political and economic life is clogged in ways that threaten to make it a disturbed place in the next few years (see pages 19-22). If it is disturbed, it will be disturbing—both to the United States and to America's European and Asian friends, who will not be getting the American attention they are used to if Mexico becomes the main foreign-policy preoccupation of the United States.

It might. Not for the reasons that have caused another Latin American trouble-spot, also measured in driving time from the Texas border, to monopolise the headlines. Nicaragua is a small country of 3m impoverished people whose only importance is that its Marxist-Leninist leaders have managed to enmesh it in the great gears of conflict between America and Russia. Mexico, a grand country of 80m people, is the world's second-most-indebted developing country, its tenth biggest economy, the cultural leader of the 260m Spanish-speaking Latin Americans.

It is not threatened, or not yet, by armed revolution. Its financial distress, though severe, will not be allowed to end in collapse—for the simple reason that the United States and its banking system could not tolerate it. But Mexico has, in common with most of Latin America, cultivated exactly the wrong habit of making politics the route to personal success and wealth, and is starting to pay the price in poverty and stagnation. Like Ferdinand Marcos's Philippines, Mexico has time to repent before serious social disorder overtakes it. The United States can give it a gentle shove in the right direction. Nobody, however, should underestimate how paralysed by intimacy the United States is likely to be as it makes policy towards its southern neighbour.

The foreigners within

Americans have always tended to see the rest of the world as a pale projection of their domestic drama. The principles Americans live by, and the passions of the immigrants' children who make up American society, matter in the making of American foreign policy much more than most non-Americans, brought up on the idea of national interest, are likely to believe. America's unflinching support for Israel is an example of how voters, pressure groups and popular beliefs can shape America's behaviour outside its borders.

Mexico's society penetrates the United States more deeply than Israel's, or any other, ever will. A third of the continental United States—and now its richest and fastest-growing part—was Mexican territory until just 140 years ago. There are 17m Americans of Hispanic descent—and more than 10m of them are Mexican in origin. On top of that, between 5m and 10m Mexicans live in the United States illegally. America's immigration service claims that nearly 2m Mexicans will be caught trying to enter the United States illegally this year. Nobody guesses how many will get through.

America's semi-permeable borders—which admit, legally and illegally, large numbers of the ambitious, the strong, the monied in almost exact proportion to their ambition, strength and wealth—are probably the country's greatest asset. But they make it even more difficult for the United States to treat the rest of the world as something other than an extension of itself. The 1,900-mile-long border with Mexico has for years frustrated America's immigration laws. But today's difficulties are nothing compared with those that would ensue if Mexico really went bad. Millions of Mexican families divided across an (improbably) enforced and hostile south-western American border would tie Washington decision-making in knots.

It need not go that far. The United States is facing in

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Mexico, more intensely, the same failures that plague much of Latin America. American policy towards Mexico—and towards the rest of Latin America—ought to aim at helping it become more like East Asia: so that the Mexicans who now emigrate to Los Angeles and successfully set up book-binding factories or lawn-tending companies will decide that Guadalajara or Mexico City is the place to do so instead.

The United States has to be subtle about promoting such a change. Mexico is deeply sensitive to any hint of interference from the giant to its north, and is determined to be treated with respect as a power in the hemisphere. But it would not be amiss for the United States, entangled as it is in Mexico's destiny, quietly to promote two related notions in its neighbour.

The first is that an alternation of power between parties strengthens a country rather than weakens it. The second is that a free economy—with low barriers to trade, a warm welcome to foreign investment and decentralised decision-making—generates growth, while an economy in the hands of politicians generates only corruption. The collapse in the price of oil, so painful in the short run for Mexico's finances, offers Mexico the chance to turn its back on the policies that have been ruining it. Its neighbour to the north can help Mexico grab that chance.

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JN L.A. Mexico

An Interview with Miguel de la Madrid

When he assumed the presidency in 1982, Miguel de la Madrid Hurtado inherited a country tottering on the edge of economic collapse. An 11% drop in the price of oil coupled with spiraling interest rates had left Mexico $85 billion in debt and forced international bankers to cobble together an emergency rescue plan. The Harvard-trained De la Madrid instituted a painful austerity program that devalued the peso, sharply curtailed imports and cut government spending, including costly subsidies on basic goods and services. In an effort to stimulate future growth, he sold off some state-owned enterprises and invited foreign investment. Now, halfway through De la Madrid's six-year term, another precipitous drop in the price of oil, which is expected to cost Mexico $6 billion in revenues, and $4 billion in losses caused by last September's catastrophic earthquake have pushed Mexico back to the brink.

Last week the World Bank agreed to lend Mexico $400 million to repair earthquake damage. But the country still needs an additional $6 billion to meet payments on its now $98 billion debt. De la Madrid recently met with TIME *Assistant Managing Editor Richard Duncan and Mexico City Bureau Chief Harry Kelly. During the hour-long interview, De la Madrid, 51, appeared surprisingly optimistic about his country's future. Excerpts:*

GOLDBERG—STOBA

Notably optimistic: the President at the National Palace

On comparisons with the 1982 crisis. The impact of the drop in oil prices is much more serious now than it was in 1981-82, but at present Mexico has monetary reserves it did not have at the end of 1982. We have moved forward in the restructuring of our foreign debt, and we do not have companies on the verge of bankruptcy, as was the case in 1982. I would also say that there is not as much tension among the people as there was at the end of 1982. By that, I do not mean that people are not nervous, but the situation is not as critical.

On reducing dependence on oil. Mexico needs to develop very aggressively its capacity to export goods other than oil. We need foreign investment to increase export capacity and [to enable us] to absorb modern technology. This goal requires considerable internal efforts and a climate abroad that will encourage investments in export products. No matter how hard we try in Mexico to increase exports, if the large markets do not give access to our export goods, the investor will not feel sufficiently encouraged to make the investments.

On international cooperation. We debtor countries should do our job, but that is not enough. There is a need to achieve more effective economic cooperation. Otherwise, we will continue to go from crisis to crisis. The countries of Latin America have been setting forth these ideas. We have a consultation group, the Cartagena Group, that has pointed out the problems and indicated that they cannot be dealt with on the basis of purely commercial or business criteria, and that since the fate of many nations is at stake, political criteria should be taken into account. I believe such ideas are gradually gaining acceptance. For example, what has been called the Baker Plan* is based on the idea that there can be no solution to the debt problem without economic growth. This is a very important idea. What is now needed is to give it shape.

On a future debt moratorium. One of the basic principles of our foreign policy is the peaceful solution of controversies. We have not considered it useful to foment conflict or confrontation. Mexico believes more in negotiation than in confrontation.

On the political costs. At present, 70% of our public deficit stems from interest payments. In spite of having increased revenue and reduced expenditures, the load of the interest on the debt has us traveling a vicious circle. If we could reduce the debt-service burden, we would be strengthening the balance of payments and that would give us greater capacity to import—and most of our imports are from the U.S.

In addition to being a real economic problem, the debt has become a very important psychological problem for the people of Mexico. A person or a country can work with greater enthusiasm if they can see a light at the end of the tunnel. But if they see that however many efforts and sacrifices they make, there seems to be no way out, a problem of despondency arises.

On U.S.-Mexican relations. The fact that we are neighbors creates a very complex relationship. There is a great potential for cooperation but also for conflicts. The matter of migration attests to this fact. The drug-trafficking issue has caused some problems. The U.S. is the No. 1 drug-consumer market in the world, and is thus a powerful magnet, which in turn serves to foster this kind of activity in Mexico. The Mexican government is making a considerable effort in drug control in spite of our economic crisis.

On Mexico's future. I do not think Mexico has ever had a very easy time. If we look back over history, we will see that it was only from the 1950s until the end of the 1970s that we enjoyed continuous expansion. The rest of our history has been difficult and has always required enormous efforts by the Mexican people. We have been able to surpass these problems and change Mexico into an important country on a world scale. If we have been able to achieve this when we faced even more serious problems than the ones we face now, I am certain that we will be able to do the same in the future.

*U.S. Treasury Secretary James Baker's proposal to provide low-interest loans to help Third World debtors stimulate long-term growth.

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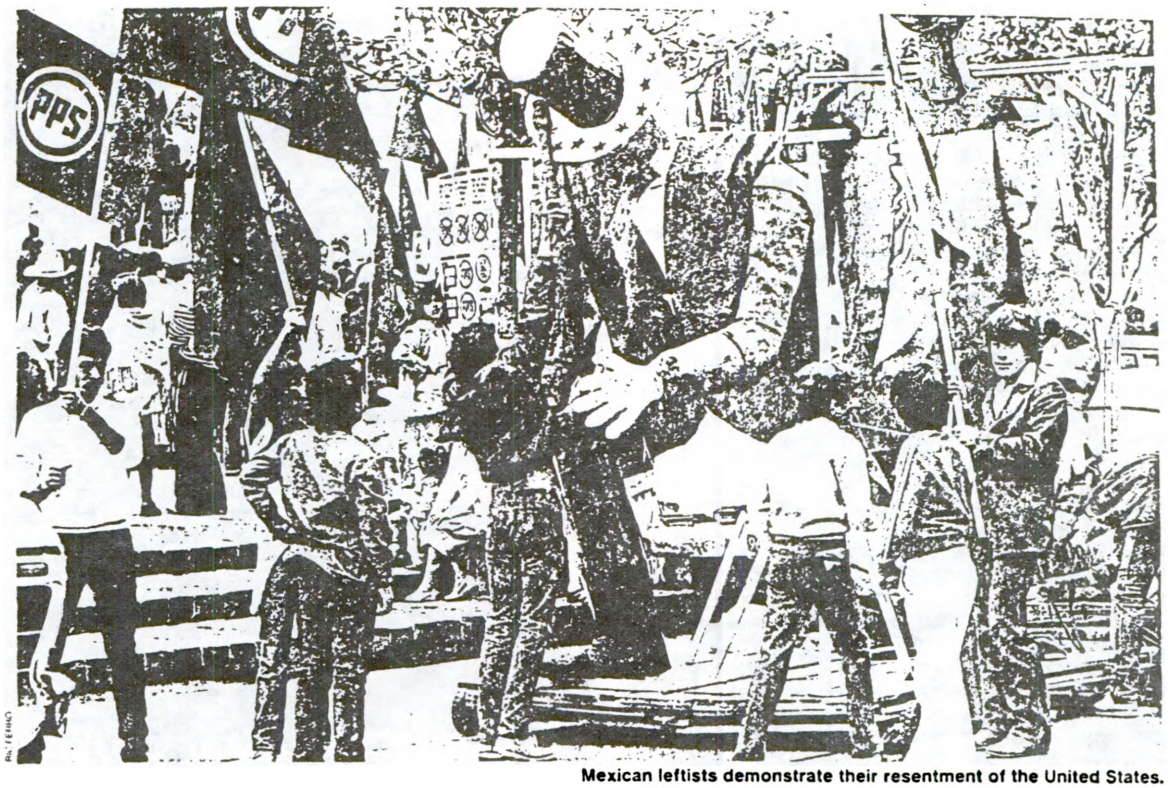

Mexican leftists demonstrate their resentment of the United States.

After Mexico's Vote, More Headaches for U.S.

A message from the country's long-ruling party after an election sweep: America should get off our back.

MEXICO CITY

Mexico's controversial midterm elections, tainted by charges of fraud inside the country and meddling by Americans from outside, signal possible new strains between the United States and its southern neighbor.

A widespread view among top government officials here: While Washington steered clear of direct intervention in the July 7 voting, some influential Americans, including key Republicans, were openly plugging for the more conservative political opposition.

In the words of one leader here: "We are being punished for not toeing the U.S. line on Central America."

The balloting produced no surprises, however. The iron grip that President Miguel de la Madrid's Institutional Revolutionary Party (PRI) has wielded over the country for the last 56 years remains by and large unchallenged.

Although PRI's political rivals contested thousands of ballots—and hundreds took to the streets in sporadic protests in Monterrey and other cities—the ruling party claimed overwhelming victory. It captured all of the seven contested governorships and maintained its overwhelming control of the House of Deputies, Mexico's parliament.

The anger of anti-PRI forces—the "dirtiest election in years," some charged—was matched by the undercurrent of resentment in government circles over America's suspected role here.

President de la Madrid himself was seen joining in the criticism when he declared pointedly during the campaign: "We do not need lessons in democracy from abroad."

Policy differences. Although U.S.-Mexico ties have been traditionally strong and Mexican leaders insist they remain so, relations have become increasingly strained in recent years. One reason is de la Madrid's refusal to endorse President Reagan's hardline policy against Communists and other leftists in Central America.

Senior officials cite the unremitting U.S. criticism of Mexico's stance as evidence that Reagan Republicans preferred the conservative, minority National Action Party (PAN) to the entrenched PRI, a coalition of labor unions, business groups, civil organizations and the military that together run Mexico as a corporate state.

PAN was founded in 1939 by Catho-

Opposition parties claim voting was rigged.

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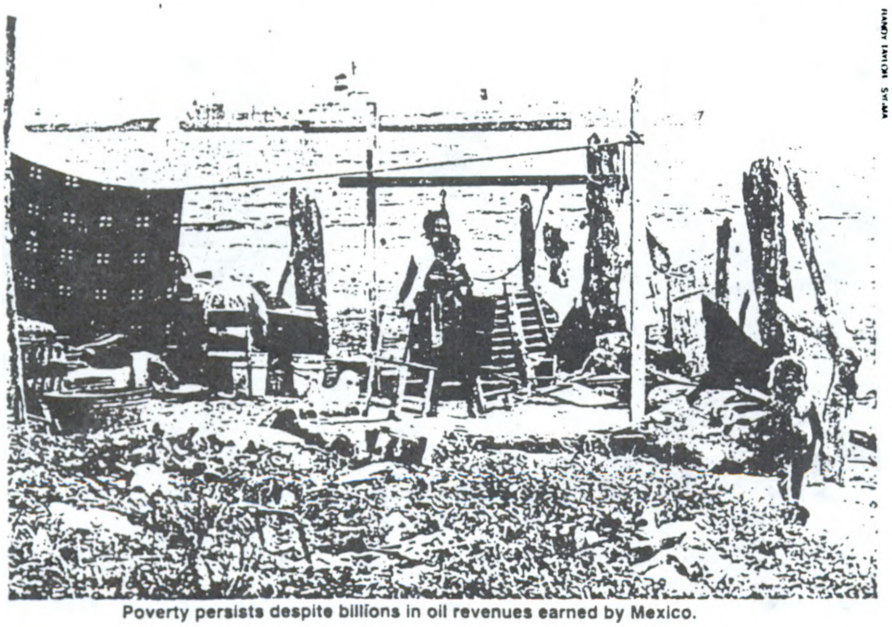
lic-backed business groups to counter the political left. The PAN party is a constant critic of the leftists, and its policies generally are more in tune with the Reagan administration's than are many of PRI's.

Also cited as an example of a "tilt toward PAN" was the invitation extended to its representatives to attend last year's Republican national convention. Continuing contacts since then between PAN and U.S. business and conservative groups have fed the air of suspicion in the de la Madrid camp.

By far the most contentious issue between the two countries is Reagan's tough policy toward Nicaragua's Marxist regime. Mexico's civilian leaders share American concerns about the security threat posed by Managua. But they are convinced that Soviet and Cuban influences should be eliminated through negotiations, not force.



Poverty persists despite billions in oil revenues earned by Mexico.

"Unwarranted" pressure. While Mexico's resentment of U.S. muscle flexing over Central America is the major irritant, many other problems are likely to be exacerbated by unhappiness over what is regarded as other unwarranted U.S. pressure.

This includes American criticism of Mexico's handling of illegal cross-border drug trafficking. Mexican officials, for example, chafe at U.S. charges that they have been negligent in failing to curb the smuggling and that Mexican police themselves are involved in the trade.

The charges have spurred authorities to action, however. After the murder of a U.S. Drug Enforcement Agency officer earlier this year, the Mexican government fired 427 agents in its special crime-fighting unit because of suspected links to drug dealers.

Still, the dispute over Mexico's handling of the murder case prompted the U.S. to virtually halt cross-border traffic into the U.S. temporarily—a move that embarrassed officials here.

Washington leaned hard as well on Mexico after several American tourists were killed during visits to Mexico earlier this year. The State Department took the unusual step of announcing that the U.S. was considering issuing a travel advisory—in effect, a warning—to Mexico-bound tourists. Although the advisory was never issued, Mexico's tourism business, which reaped nearly 2 billion dollars in 1984, declined.

Mexican officials are hoping that a probable summit meeting this fall between de la Madrid and Reagan will ease tensions and resolve other bilateral issues. Pending a de la Madrid-Reagan meeting, Mexican officials are urging a return to quiet consultations instead of embarrassing public feuding.

Despite the charges of fraud in the July balloting—confirmed by numerous foreign observers at the polls—the largely peaceful vote underscored the basic stability of this country. On Election Day, police assigned to keep order were backed by 90,000 soldiers deployed around the country. Scattered incidents of scuffling and protests, particularly in northern states near the U.S., were fewer than expected.

Long before the elections, de la Madrid faced serious problems that some experts thought could weaken the PRI political stranglehold. One erupted in 1982 when economic mismanagement led to 100 percent-plus inflation and an 80-billion-dollar foreign debt that has risen to even higher levels today. There were reports of widespread official corruption in the handling of Mexico's oil income, estimated at more than 15 billion dollars a year.

Bankers and businessmen, who consider themselves part of the PRI system, were further alienated that year when outgoing President José López Portillo nationalized private banks. Says a Monterrey businessman: "We lost our property. It could happen again."

In the past three years, a drastic austerity program imposed by de la Madrid has cut living standards of most Mexicans by 40 percent. People on both the political right and left have consequently turned against the PRI in favor of the opposition—though not in sufficient numbers to threaten PRI's domination.

Mexicans are even more cynical now, in the aftermath of the elections. Few believe that the corrupt government practices of the past will disappear despite de la Madrid's own emphasis on restoring public morality.

The economic future is bleak. With the economy in tatters, the peso, which was valued at 26 to the dollar in 1981, is now 300 to 1 on the black market.

Personal misery is deepening. Hunger is growing worse in urban slums and rural areas. The crime rate is rising. People often barricade themselves in their homes for fear of robbery.

Last fall, de la Madrid loosened his austerity program to allow for more spending on public works and social welfare, especially in Mexico City and the north where the PAN opposition was building. Such moves, however, have reheated the economy and raised the risk of a new inflationary cycle.

Oil woes. Plunging oil revenues add to the sense of desperation. The $1-a-barrel cut in the price of oil announced on July 10 means the country will earn less abroad. That will add to pressures to reintroduce austerity, producing more suffering.

Many business executives today are urging a change in Mexico's economic and political life. They want a free-market economy instead of the present state-dominated mixed economy. Mexico, they also argue, should endear itself to the prosperous U.S. by publicly embracing an anti-Communist policy.

For now, at least, that is not in the cards. More bickering seems the likelier prospect. □

By CARL J. MIGDAIL

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P. A19 THE NEW YORK TIMES, MONDAY, DECEMBER 30, 1985

The Wrong Way to Treat Mexico

By Susan Kaufman Purcell

Last year, Americans expected too much of Mexico. Now they expect too little. Such swings are dangerous and produce complacency or despair. Both exacerbate Mexico's problems.

Until it nearly defaulted on its debt in August 1982, Mexico was one of the most stable countries in the hemisphere. That political stability has gone hand-in-hand with economic growth. To assure continued stability, the United States should support Mexico's efforts to open its economy and reduce the role of the state.

Without an expanding economy, Mexico's political system has trouble dampening demands and buying solutions to internal conflicts. Realizing this, Mexico's leaders made economic recovery their No. 1 priority. With the blessing of the International Monetary Fund, they adopted an austerity program. They cut imports to reduce Government spending, devalued the peso, held the line on wages and increased exports. The result was a dramatic reduction in the deficit and inflation, and all without producing mass political unrest.

Mexico became the "model" debtor country. Complacency replaced concern, and the sense that Mexico's debt crisis was manageable, or even over, began to grow in the United States.

But slipping prices on petroleum, Mexico's chief export, and Mexico's inability to borrow, forced it to take further action. In 1985, the de la Madrid administration liberalized import policies, signed an understanding with the United States on subsidies and countervailing duties, encouraged direct foreign investment and reversed its opposition to joining in the General Agreement on Tariffs and Trade. On the political front, the Government recommitted itself to free and fair elections after claiming victory in several districts despite evidence to the contrary.

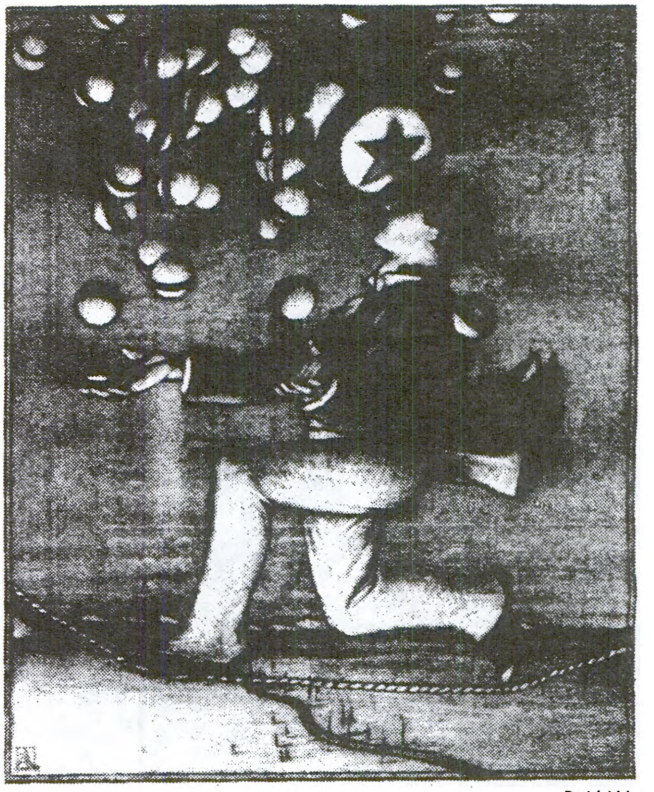
Susan Kaufman Purcell is director of the Latin American program at the Council on Foreign Relations.

Expecting too little or too much

But confidence in Mexico's future remains disturbingly low despite signs of commitment to change. Part of the problem is the indecisiveness and lack of leadership of the de la Madrid administration. Each step forward is followed by a retreat or the absence of follow-up. Import permits were lifted, but some tariffs were increased. Foreign investment was welcomed, but the bureaucratic red tape that discourages it remains. Slow progress in ending subsidies has created doubts about the seriousness of Mexico's commitment to a more competitive economy. And reports of stuffed and stolen ballot boxes in elections last July belie promises of needed political reforms.

Bad luck is also involved. The earthquake in September and falling oil prices have further undermined the value of the peso and increased capital flight. Mexico is currently trying to obtain $2.5 billion in new economic assistance for 1986 and hints it may need $15 billion over the next three years, half the new funding that has been proposed for all debtor countries.

Those who last year considered Mexico a model now speak as if it were a basket case. They were wrong last year; they are wrong again.



Daniel Adel

Mexico has grave problems, but it also has great potential. Economically, it has a large internal market, a diversified industrial base, impressive petroleum reserves and a 2,000-mile border with the United States. Politically, it has a party system that has survived many crises through flexibility, adaptability and a tradition of compromise and negotiation. In such a system, change comes slowly. This may seem a defect now, but Mexico has avoided the swings between civilian and military rule that characterize much of Latin America.

Mexico's past successes do not guarantee future ones. They do, however, suggest that pessimism about Mexico is excessive and premature. There is greater support for needed political and economic changes than appears to be the case on the surface. Most Mexicans dread the status quo more than reform. They are also far less fearful of closer economic relations with the United States than are Mexico's most vocal intellectuals.

The United States can help Mexico make the necessary transition by not doing too much or too little. Taking the initiative to solve Mexico's problems is too much. Not responding to requests for assistance is too little. But there is a broad area between these extremes in which the United States can function constructively. □

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The key is Mexico, not Nicaragua

WILLIAM BROYLES, JR., on U.S. relations with a neighbor

It was one of President Reagan's more vivid images: If we did not fund the *contra* forces in their fight against Nicaragua's Sandinista government, we would have a Soviet-style state "only 2 days' drive from Harlingen, Tex."

The obvious question is: 2 days' drive through what? Mainly Mexico, that's what. And Mexico is right next door—not 2 days' drive from Texas and California but 2 minutes. As the President said last week, for the Communists "the road to victory is through Mexico."

Some perspective: Mexico is an oil-producing, industrializing country of 80 million people—more than East and West Germany combined. Its area is more than France, Italy, Spain, Britain and West Germany put together.

Mexico is our third-largest trading partner after Canada and Japan—and our primary source of imported oil. Its economy and its people are intertwined with the culture and economies of two of our three largest states: Texas and California. And upon its economic good health depends the stability of our banking system. In terms of our long-range interests, Mexico is vital and Nicaragua a backwater with less than 3 million people.

Abraham Lincoln and Benito Juárez in a mural at the governor's palace in Chihuahua. "Mexicans know our futures are tied"

And so how are things with our most important neighbor and ally in this hemisphere, if not in the world? Adrián Lajous, one of Mexico's leading bankers and economists, spoke last month at the Amundsen Institute in Texas. He said that relations between the United States and Mexico are "the worst since the 1920s."

"You are pressuring us on drugs and immigration and our bank debt, and you are ignoring us about Nicaragua," said a Mexican official. "You would never dream of brushing aside Germany or England on issues of European security, but on Central America you treat our views with contempt."

Mexico opposes aid to the *contras;* so does virtually every other democracy of Latin America. Mexico has lived a short boat ride from Communist Cuba for 27 years and is more conservative today than when Castro took over. "We don't like Communists any more than you do," said a Mexican economist, "but aiding mercenaries isn't how to stop it."

Mexicans don't think they are the last domino before the Red tide from Nicaragua reaches San Diego, but many American policymakers do. They believe the ruling Partido Revolucionario Institucional (PRI) smothers democracy and the economy, and that the collapse of oil prices and the tough measures necessary to pay off Mexico's $100 billion in foreign debts will tear the country apart. Mexico, in this view, is a political and economic basket case, ripe for revolution.

But this doomsday vision is as hyperbolic as the lavish praise Americans showered back in the 1970s on the "Mexican miracle"—the 40 years of 6 percent real economic growth. Then Mexico was everyone's model for a Third World success; now it's the next Iran.

Neither view is true. Mexico's growth, particularly in the oil-boom years of 1978-81, masked structural problems that will be painful and difficult to solve. But today's crisis conceals its strengths. The Mexican political culture is still strong. The political elites of Mexico are united. The leftist parties are weak and co-opted by the government; guerrillas don't exist. The only strong opposition is in Sinaloa and in the border states, particularly Chihuahua, and that comes from the conservative PAN (Partido Acción Nacional) party—unlikely revolutionaries.

We should remember that the Mexican view of democracy is not ours. Our revulsion with Nicaragua's restrictions on freedom isn't necessarily shared in a country where one political party has ruled for 57 years. The PRI has kept its power through elections that would make Ferdinand Marcos blush. It controls the press and the private economy: Only four years ago the banks were nationalized.

But in its own peculiar way the PRI seems to be loosening its grip. Trade barriers have been lowered and the private sector encouraged. The government seems to be realizing that its image of political fraud and corruption discourages foreign investment. Mexico is not headed for revolution but toward more democracy—not less—a trend throughout Latin America that proves just how impotent Cuba has really been.

The wonder of our relations with Mexico is not that they are bad but that they are as good as they are. Only two other industrialized Western nations share land borders with Third World countries—South Africa and Israel. And they are isolated, besieged states on hostile terms with their neighbors. Mexico, in contrast, may stand apart from us when the rhetoric flies, but Mexicans know our futures are tied.

The issues that trouble our side of the relationship are definitely real. The stagnant Mexican economy is sending unprecedented waves of illegal immigrants across the border; Mexico is now our leading source of heroin and marijuana, and, thanks to the collapse of the world oil market, by the end of this month Mexico will be technically in default on the interest of its foreign debt. These are thorny, difficult matters: They require hard work on both sides of the border, and they don't have dramatic, headline-grabbing solutions. They are, in short, no-win issues—the sort that few politicians want anything to do with.

But Mexico's problems are increasingly our problems, and toppling Marxists in Nicaragua won't solve them. We have to confront the real issues not simply for the good of Mexico but for the good of the United States. And we have to start today not *mañana.*

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WORLD REPORT

IN L.A., Mexico

Oil-price collapse, debt crunch, killer quake: A nation's confidence shaken

Has Mexico hit bottom?

Mexico City

■ Ravaged first by earthquake and shaken anew by economic crisis, Mexico and its leaders today confront a national failure of confidence.

The latest plunge in world oil prices has robbed Mexico of more than just $6 billion in desperately needed capital. The promise of unlimited oil wealth had kept Mexico's leaders confident and its people docile through the worst calamities of debt and last September's killer earthquake. Suddenly, that psychological safety net is gone.

Now, Mexicans speak of plunging oil prices as if this, too, were a natural disaster. The words *el choque*—for the petroleum collapse—are joining *la crisis,* the economic crisis, and *el sismo,* the earthquake, in daily conversation.

The U.S. is trying to negotiate a $4 billion bailout for Mexico from public and private lenders. That should head off any immediate showdown between Mexico and its creditors as well as quiet local fears of imminent economic collapse. But the solution is only temporary. If Mexico is going to be brought securely back from the brink, it's going to take a full-scale economic and political reform at home, as well as a complete renegotiation of the terms for paying off its foreign debt.

Keeping Mexico afloat is a top priority for the Reagan administration. Mexican political stability is critical for U.S. strategic interests. The U.S. also has a huge economic stake in its southern neighbor. Last year, despite tough import restrictions, Mexico bought more than $19 billion in goods from the United States. American banks are also Mexico's largest lenders. But most threatening to the American economy would be the thousands more illegal aliens certain to be driven across the border.

SERGIO DORANTES—SYGMA FOR USN&WR

De la Madrid addresses labor leaders

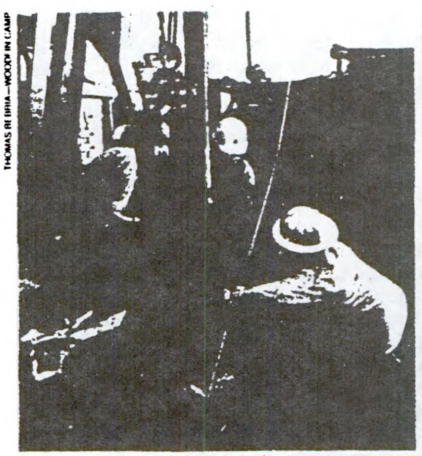
Although the current economic situation is the gravest in years, few Mexicans believe it will spawn revolution or widespread social upheaval, at least in the near term. What seem to be occurring are a quickening erosion in public confidence and a loss of government political credibility.

The Institutional Revolutionary Party (PRI) has faced such challenges before during the more than 50 years it has ruled Mexico. But political analyst Lorenzo Meyer says this time is different. "This is the first time they [the leaders] have been really scared. They are beginning to doubt their ability to co-opt opposition."

As part of the campaign to restore public confidence, Mexico's leaders are taking a new hard line with their creditors: Refusing further budget cuts at the cost of social programs or jobs. "The Mexican people have sacrificed enough," says Treasury Under Secretary Francisco Suárez Dávila. "Politically, we can't afford more."

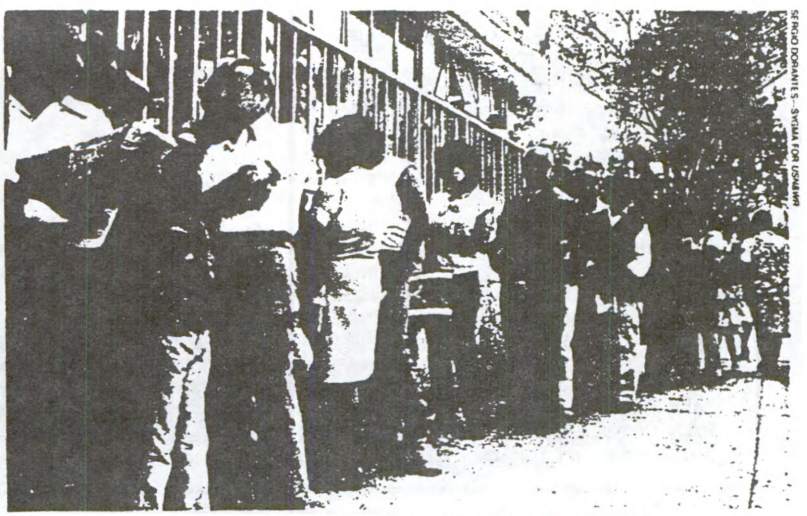
Mexicans say they will work with bankers to find ways of gradually paying off their nearly $100 billion debt. But if this spirit of cooperation falters, the result could be a monumental loss of money for U.S. banks, which hold $26 billion in Mexican loans.

The PRI leaders are looking beyond the economic sphere to restore confidence. They speak once again of the need for reforms such as ending government corruption and choosing better and more-representative candidates for elections. "It used to be that candidates were picked according to whom they knew in Mexico City," comments



THOMAS IN SIPA—WOODY IN CAMP

Oil-field workers continue drilling at Villahermosa. Falling prices for oil, once Mexico's hope for salvation, now add to the list of economic problems



SERGIO DORANTES—SYGMA FOR USN&WR

Line of job applicants awaiting counseling in Mexico City

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Pedro Luis Bartilotti, a PRI campaign manager in Chihuahua. "Now, we're choosing men the people want."

That has been tried before without conspicuous success. President Miguel de la Madrid took power promising sweeping reforms but quickly ran into trouble with old-line party leaders, particularly after opposition forces won impressively in relatively open elections in 1983. Predictably, the losses were blamed by the old guard on de la Madrid's reforms. He promptly backed away from his program of change.

A teacher in Mexico huddles beneath an array of slogans during a hunger strike to gain higher pay

This time, however, reformers may have a better chance. With the means for wooing potential opponents disappearing as quickly as oil profits, the government's only alternatives may be reform or outright repression.

Public frustration with the government and the PRI has been rising for more than a decade. It began with the widespread corruption and incompetence of the governments of Luis Echeverría and José López Portillo in the 1970s. De la Madrid's failure to live up to early promises to clean up corruption and open the system to more political competition only increased popular alienation. Three years of economic austerity, which has driven wages back to levels of the mid-1960s, have made matters even worse.

In recent weeks, several thousand unionized workers have taken to the streets to protest high prices and demand, for the first time, a renunciation of the foreign debt. But there have been no strikes, and the vast majority of organized workers remain in the tight grip of the government-controlled union.

Another symptom of faltering confidence is the swift drop in the peso's value, which tumbled from around 250 to the dollar to just under 500 in a few months last year. Economic forecasters predict that it could slip to as low as 1,000 by the end of this year.

A historically high number of Mexicans are using their feet to express their discontent with conditions at home. The U.S. Immigration and Naturalization Service reports the number of illegal immigrants recently stopped at the U.S.-Mexican border has doubled since 1985.

What frightens the PRI is not the specter of an eventual left-wing revolution that haunts some U.S. officials in Washington. That, say government supporters and critics alike, is nearly impossible. "The crisis is very real, but the left isn't gaining any political advantage from it," says Rolando Cordera, a former member of congress for the left-wing Partido Socialista Unificado de México. He adds: "Our party, indeed all the left-wing parties, is extremely weak."

The PRI's real concern is the growing popularity of the right-wing Partido Acción Nacional (PAN). "We know that people vote for the PAN only as a form of protest against our party. Still, it is worrying," says Fernando Baeza, PRI gubernatorial candidate in Chihuahua, a PAN stronghold.

Although the PAN is not yet a true national force, it did manage to record some impressive local victories in 1983 and again in 1985, especially in northern border states.

The PRI has always shrugged off such challenges in the past. But with the oil boom suddenly gone bust, it can no longer afford to buy votes or voters. Political reform has never come easy to the PRI. This time, however, it may have no other choice. ■

by Carla Anne Robbins

Where old order faces toughest challenge

Chihuahua

In Mexico, the old ruling order is under challenge from inside and out—a political truth nowhere more evident than in this dusty state bordering on Texas and New Mexico.

A new breed of candidate is running in gubernatorial campaigns that may set the pattern for future races between the ruling PRI party and the PAN, its main challenger.

Gone are the big-city-machine politician and ward heeler who have long been mainstays of the front-running PRI. Gone, too, is the complacent opposition candidate who did all but concede before the race had even begun. In this contest, the PAN's candidate ignored heart problems to stage three hunger strikes in protest of alleged electoral fraud.

Two of Mexico's best and brightest are running: PRI's Fernando Baeza, 44, who lists John F. Kennedy as a political hero, and the PAN's Francisco Barrio Terrazas, 35, a hard-line rightist and admirer of Winston Churchill's. So stridently religious is the latter that some call him the "ayatollah of Chihuahua."

Francisco Barrio: The challenger

Fernando Baeza: The Establishment

Both political outsiders, they are running on platforms that assail graft and pledge fiscal integrity and state's rights. Both have disclosed financial holdings—remarkable in Mexico. Both are critical of the Mexican political system and their parties' roles in it.

"It is true there is corruption. And I am capable of confronting it and destroying it," declares Baeza, sounding more like a PAN candidate than a true son of the ruling PRI. Barrio, meanwhile, calls his own compatriots to task for "complacency" and "weakness": "We are partly responsible. In the past, PAN candidates ran in elections knowing they would never win."

Despite strong support for Barrio and his party across the state, it does not seem probable that the PRI will break a half-century of tradition and surrender the top job when elections are held this summer. But even if the PAN should lose, the face of politics is never going to be the same here.

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Wall Street Journal
April 21, 1986, p. 27

The Starting Bell Sounds in Mexico For Politicians

* * *

Seemingly Innocent Events Indicate That Campaign For Top Job Has Begun

By Mary Williams Walsh
Staff Reporter of The Wall Street Journal

MEXICO CITY – Mexico's unofficial presidential campaign started last week, even though elections are still two years away and no one has yet announced his candidacy.

"We are celebrating the beginning of the tapadismo," beamed one former government official, referring to the time that Mexico's 57-year-old political machinery creaks to life and the country's next president is chosen behind the scenes.

Officially, only two seemingly innocent political events occurred here last week. On Thursday, the minister of mines and state enterprises announced he was quitting to run for governor in a northern state. Then, on Friday, came the news that the minister would be succeeded by Alfredo del Mazo, governor of the state of Mexico, just west of Mexico City.

For Mexicans, that was the starting bell.

Mr. del Mazo runs the nation's most populous state. Many Mexicans, jaded after watching a series of bureaucrats take the presidency and be nearly overhwelmed by the nation's problems, say only a tough, power-brokering politician can save the country now.

So when Mr. del Mazo's elevation to the cabinet was announced, phones started ringing around the capital. Gossip, bets and exaggerations abounded.

"The press is crazy about him" says a government political analyst. "His wife is very beautiful, very Catholic. He baptized the president's son."

"On at least two occasions, the president has referred to him as the brother he never had," exclaims one business executive on hearing the news. "This is the open door to the presidency."

Not quite. Plenty of other hopefuls have already started their non-campaigns, and for the next few months Mexicans will watch them all pretending they aren't jockeying for power. They are called tapados, or covered-up men, an expression that speaks volumes about the way Mexico chooses its leaders.

The covered-up candidates aren't supposed to disclose their interest in the presidency. They aren't supposed to campaign. The ruling party may be selecting the nation's new president, but no one is supposed to act as though anything unusual is going on.

Then, sometime next year, President Miguel de la Madrid Hurtado will lift the cover from one of the tapados, and the official race will begin. The uncovered candidate will travel the country, speaking and shaking hands. He will compete with several opposition candidates. The vote will be held in 1988. He will win.

With the covered-up candidates now stabbing backs and making alliances behind the scenes, pessimists say it will be nearly impossible for Mexico to implement any truly far-reaching new economic programs. The tapadismo works against such drama. Candidates aren't supposed to draw any but the most innocent and favorable attention to themselves. That kills any inclination they might have to be brash and take risks—no matter how much the country may need that right now.

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APR 16 1986

JX1428 L.A
p. A14 Mexico

Mexicans Raise Prospect Of Shevardnadze Visit

Soviets Said to Seek Better Latin Ties

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, April 15—Soviet Foreign Minister Eduard Shevardnadze "most probably" will make an official trip to Mexico before the end of this year, and Soviet leader Mikhail Gorbachev may come next year, Mexican officials said today.

The expected trip by Shevardnadze, which would mark the first visit to Mexico by a Soviet foreign minister, was described here as part of a new Soviet effort to improve relations with Latin American countries. The Soviets "are trying to make relations closer, to show friendship," a Mexican official said.

The leftist-oriented Mexican newspaper La Jornada, which reported Sunday that Shevardnadze was coming here in September and that Gorbachev would visit next spring, said that Gorbachev also would visit Cuba, Nicaragua, and possibly Brazil, Argentina and Peru. There was no immediate confirmation of Gorbachev's plans to make such a trip, but two well-placed sources indicated that the Soviets had provided the newspaper with the bulk of its information.

"This is a general tendency on the part of the Soviet Union. It is trying to move closer to Latin America," a diplomatic source said.

It seemed likely that the United States would be displeased if the Mexicans receive a top Soviet leader. The State Department was quick to express concern late last year over reports, which proved to be untrue, that a Soviet ship was planning to visit a Mexican port.

The United States already is unhappy with Mexico's diplomatic tilt toward Nicaragua's Sandinista government, and with its record of votes against Israel and South Africa in the United Nations. A U.S. Embassy spokesman declined to comment on the possibility of a high-level Soviet visit to Mexico until it was confirmed.

Both the Mexican Foreign Secretariat and the Soviet Embassy have declined to comment publicly on the La Jornada report. "These things are usually announced simultaneously in both countries," a Foreign Secretariat official said in explaining the delay.

Mexican officials said privately that Shevardnadze most likely would visit Mexico sometime this year, but that there has been "no definite decision" on a trip by Gorbachev. "There have been talks about the possibility," a Mexican official said.

The Mexican officials said that a trip by Shevardnadze would come as part of "normal diplomatic activities" and denied that it would signal a change in Mexican policy.

"The fact that we haven't had a [Soviet] foreign minister here in the past doesn't mean that we can't have one in the future. Mr. [George] Shultz [the U.S. Secretary of State] has come here a dozen times," a Mexican official said.

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pt. II p. 3
MAR 2 9 1986

L.A. Cuba
IX 1424

U.S. Envoy to Mexico Assails Times Editorial

The Times editorial (Jan. 6) argues for the restoration of diplomatic ties between Cuba and the United States after 25 years of rupture. Its logic for this argument reflects the "Blame America First" school of thought.

As rationale for its position, the editorial states that some U.S. scholars believe Fidel Castro is "eager for a settlement in Central America"; that the United States' support for its allies in the area is equal to Castro's "adventurism"; that the true problem, in the failure to achieve better relations, is the initiation of a new Voice of America program to Cuba, which gave Castro "no choice" but to break a recently negotiated agreement on immigration with the United States.

With all respect, The Times is wrong. It is wrong on the facts; and it is wrong on its interpretation of the facts.

Let us examine The Times' statements more closely:

1—The Times states: A number of scholars are convinced "Castro is eager for a peaceful settlement" in Nicaragua and El Salvador. Some scholars. *The facts:* Castro may be eager for a settlement, but only one in which the communists dominate. Castro may not have achieved an enviable record in promoting communist revolution, but it is not for want of trying. Only in Angola and Nicaragua have Cuban-supported revolutionaries been victorious in 25 years of struggle, although both are under counterattack at the moment. There is, however, undisputed Cuban support for revolutionary organizations that use the tools of terrorism. Training for such insurgents in Cuba has occurred regularly in the past 25 years and occurs today.

2—The Times states: U.S. support for its allies is equal to Cuba's support for its friends. Some equivalence. *The facts:* This is an egregious attempt to make a moral equivalent between subversion and support of freedom. Cuba maintains 25,000 troops in Angola supporting a Marxist regime. Cuba maintains 15,000 troops in Ethiopia in support of a Marxist regime. Cuba maintains 2,500 to 3,500 troops in Nicaragua in support of a Marxist regime. I challenge The Times to cite one country where U.S. troops are stationed to protect regimes friendly to our nation from being overthrown by internal opposition.

3—The Times states: Castro has moderated his sinister activities. Some moderation. *The facts:* Does The Times not call sinister the attempted kidnaping of a Cuban political refugee in Madrid in December, 1985, by four Cuban Embassy employees? They were foiled only by bystanders. Castro's spots have not changed; The Times simply chooses not to see them.

4—The Times states: "The latest breakdown was the fault of Washington. The initiation of Radio Marti broadcasts last May left Castro little choice but to break the Mariel prisons and immigration agreements negotiated only five months earlier." Some fault. *The facts:* The Voice of America has been broadcasting to Cuba for more than 20 years. It is in full compliance with all pertinent U.S. legislation and with domestic and international regulations on broadcasting. The VOA began its Radio Marti program on May 20, 1985. The only alteration in VOA broadcasts to Cuba was a change in programming. There was no increase in the power of transmissions, no use of new frequencies, no interference with Cuban domestic broadcasting, no derogation from VOA's well-known high standards of objectivity and accuracy.

Despite the Castro regime's attempts to jam it, Radio Marti is very popular with the Cuban people. Its news broadcasts have forced Cuban authorities to treat issues they would rather ignore. Radio Marti recently reported the attempted kidnaping of the Cuban defector in Madrid. The Castro regime had no choice but to comment on the matter openly. This reaction contrasts with the official silence which used to be the norm in such cases.

Radio Marti, far from giving the Cuban government "little choice" but to break agreements made with the U.S., has given it "little choice" but to come clean with its own people. The Cuban dictatorship's concern with Radio Marti reflects only its fear of the consequences of letting the Cuban people know the truth.

The Times editorial stands facts, logic and international law on its head. In the words of Lewis Carroll, The Times' treatment of Castro seems bent on "madly squeezing a right-hand foot into a left-hand shoe." Some squeeze. Some shoe.

JOHN GAVIN
U.S. Ambassador
to Mexico

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APR 9 1986

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p. A4

WEDNESDAY, APRIL 9, 1986

Central America: Accord Is Still Remote

By JAMES LeMOYNE
Special to The New York Times

PANAMA, April 8 — A negotiated settlement of the conflicts in Central America seems more distant than ever in the aftermath of the latest failure of the so-called Contadora peace process, according to several Latin American delegates who attended the talks here.

News Analysis

No one seems willing to declare that the effort to negotiate a regional agreement is at an end. But it is difficult to find any Latin American official who can say how the deadlock in the talks, dramatized Monday by the unsuccessful conclusion of another negotiating session, is likely to be broken. That prospect has concerned those who see the Contadora negotiations as the only viable alternative to the Reagan Administration policy of increased military pressure on Nicaragua.

"There is a hardening of positions," said the Foreign Minister of one of the countries most actively involved in the negotiations. "We all feel time is running out."

The Contadora talks, named for the Panamanian island where they began more than three years ago, are sponsored by eight Latin American countries, with Colombia, Mexico, Panama and Venezuela taking a leading role. They are trying to negotiate a complicated treaty covering political and military concerns that would be signed by Costa Rica, El Salvador, Guatemala Honduras and Nicaragua.

The on-again, off-again negotiations have produced a draft treaty that calls for internal reconciliation, the formation of democratic governments and an end to foreign support for subversion. Two provisions remain a matter of dispute: a limit on military forces and an end to foreign military influence.

Limiting Nicaragua's Revolution

While the treaty would affect all Central American countries, it increasingly appears aimed at finding a peaceful way to limit the Nicaraguan revolution. Of all the countries in the region, Nicaragua would apparently have to take the largest steps by reducing its 100,000-member army and militia and perhaps altering its political structure.

But the accord would also appear likely to force Honduras and El Salvador to sharply roduce reliance on American military aid. In addition, El Salvador would be pressed to negotiate with leftist rebels, and Honduras would have to stop supporting Nicaraguan guerrillas.

The Contadora talks are based on the assumption that such fundamental questions can be negotiated and that a starting principle for talks is nonintervention in the affairs of other countries. As such, the negotiators reject the Reagan Administration's argument thet military force is needed to persuade Nicaragua to make concessions.

But after three days of debate here, the talks foundered because of Nicaragua's continued refusal to discuss and sign a peace treaty until the United States stops supporting Nicaraguan guerrillas. Nicaragua called on negotiators to issue a communiqué condemning American aid to the rebels.

Nicaragua's position was opposed by officials from Honduras, El Salvador and Costa Rica, according to three participants in the talks, who said the three countries refused to endorse a specific condemnation of American support for Nicaraguan guerrillas.

U.S. Concerns Are Echoed

Officials from El Salvador and Honduras have echoed the view of Administration officials in Washington, saying they do not believe that Nicaragua will make concessions unless the guerrillas are available to apply pressure and to be used in a bargain to reduce the size of the Nicaraguan Army.

The United States and Cuba, although not involved in the talks, are having a critical effect because of the Reagan Administration's willingness to support a guerrilla war against Nicaragua and Cuba's willingness to arm and advise Nicaragua's growing army.

To address such outside influence and to encourage Nicaragua to negotiate, the eight countries sponsoring the talks issued a statement in Venezuela in January condemning "foreign intervention" and calling for talks between Nicaragua and the United States.

It is not clear why Latin American foreign ministers took the risk of attending what proved to be another failed negotiating effort. Some representatives said they believed Nicaragua could be swayed to start talking after the declaration in Venezuela, even without a pledge from Washington to cut support for the rebels.

Negotiators tried to convince Nicaraguan officials that by signing the Contadora treaty they would make it more difficult for the United States to continue backing the rebels. But the Nicaraguans were not persuaded, said two officials involved in the talks.

"I don't understand Nicaragua," one of the officials said. "They were extremely intransigent."

Aware of Prospects in Congress

Negotiators appeared highly aware that the United States Congress would probably approve renewed aid to the Nicaraguan guerrillas next week, a move likely to harden Nicaragua's position, at least in the short term.

But rather than declare Contadora dead, the eight Latin American sponsors asked the Central American countries to agree within the next eight days to negotiate the remaining military security provisions of the treaty and to pledge to sign the accord on June 6.

A senior official of one of the main negotiating countries said he thought the Nicaraguan Government would be under great pressure in the next week to accept at least a provisional agreement to conclude negotiations. But it appears likely that the Contadora talks will be quietly suspended, as they have been in the past, and will be revived when and if the countries of the region are ready to make concessions.

In the meantime, Nicaraguan officials have pledged to continue their military buildup to fight the guerrillas, who, in turn, are likely to grow stronger with the support of Honduras and the United States.

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Latin Talks Founder Over Contra Issue

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WASHINGTON POST
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APR 8 1986 p. A1, A16

By Edward Cody
Washington Post Foreign Service

PANAMA CITY, April 7—Three days of talks to revive the sagging Contadora peace negotiations collapsed in disarray today over Nicaragua's insistence on an end to U.S.-sponsored guerrilla attacks as a condition for peace in Central America.

The display of regional discord came as the House of Representatives prepares to renew debate on a Reagan administration proposal for $100 million in mostly military aid to anti-Sandinista rebels fighting to overthrow the government in Managua. It marked a setback for opponents to the aid here and in Washington who hoped the Contadora talks could provide an alternative.

Foreign ministers who participated in the discussions here insisted the outcome does not spell the end of the Contadora forum for Central American peace efforts under way since a January 1983 meeting on Contadora Island off Panama. But their failure even to commit themselves to a future date for a final agreement cast the Latin American initiative in a particularly negative light at what a number of diplomats described as a critical juncture for the region.

The Contadora nations—Colombia, Mexico, Panama and Venezuela—sought to put the best face on their efforts with a communique calling on all five Central American governments to answer within eight days whether they are prepared to "reinitiate immediately" negotiations on unresolved issues in a proposed peace treaty. The treaty would curb the military buildup in Central America by limiting the number of foreign military advisers and military maneuvers involving

See CONTADORA, A16, Col. 3

Latin Talks Founder Over Contra Issue

THE WASHINGTON POST

CONTADORA, From A1

foreign troops and reducing levels of soldiers and armaments. The draft proposal also calls for an end to aid by governments in the region to "irregular forces" fighting other Central American governments.

The Contadora nations were joined in the appeal by Argentina, Brazil, Peru and Uruguay, the so-called "support group" whose foreign ministers attended to add weight to the gathering.

The appeal amounted to a challenge to Nicaragua's Sandinista leadership to change its mind. Diplomats from a variety of countries said Foreign Minister Miguel d'Escoto refused through the talks to commit Nicaragua to sign the treaty without simultaneous steps to bring an end to the U.S.-supported guerrilla war in Nicaragua.

The foreign ministers of Honduras, El Salvador and Costa Rica issued a separate document, labeled the "Panama Commitment," pledging intensive negotiations leading to signing of the Contadora draft treaty by June 6. After prolonged talks here, they walked away from compromise efforts with Nicaragua, saying the Nicaraguan demand falls outside the Contadora framework.

"I don't have anything left to discuss," said Vice President Rodolfo Castillo Claramount of El Salvador, who is also foreign minister.

D'Escoto blamed the lack of agreement on the United States. The Contadora effort can move forward only "in the spirit and framework of the Caraballeda docume..." he said.

This referred to a January declaration calling for an end to "political, logistical or military support to groups that try to subvert or destabilize constitutional order in Latin American states through force or any terrorist acts of any kind."

The declaration, by the four Contadora and the four support group nations, has been interpreted by Nicaragua as condemnation of U.S. support for the anti-Sandinista guerrillas. The three U.S.-allied Central American governments of El Salvador, Honduras and Costa Rica have endorsed it but refused today to join the explicit linkage demanded by Nicaragua.

Observers noted that the talks here centered on attempts to elicit a pledge to resume negotiations on a Contadora draft treaty, without any attempts to negotiate the treaty itself. In intermittent talks through the night, ministers and their aides haggled instead over wording of the declaration to reconcile the Nicaraguan demand with the refusal by the three other Central American countries to entertain it. Their efforts produced only a few sentences of agreed changes.

The Sandinista insistence on dealing with U.S. support for the rebels reflected a conviction that regional peace talks would be fruitless as long as the guerrillas continue attacks from bases in Honduras, a Nicaraguan diplomat said. The neighboring countries, on the other hand, have said the guerrilla war in Nicaragua as well as that in El Salvador can end only in the framework of a Contadora-type treaty.

The draft treaty has languished mainly due to Nicaraguan reluctance to reduce its armament level—citing a threat from the United States—and reluctance by its neighbors to forswear U.S. military presence—citing a threat from Nicaragua.

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CHRISTIAN SCIENCE MONITOR
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p. 1, 10

Mexican policy shifts in Central America

By Dennis Volman
Staff writer of The Christian Science Monitor

When the Mexican government named an ambassador to El Salvador last week, many Mexicans saw it as a move to strengthen ties with Washington.

Mexico's efforts to boost relations with the US-backed Salvadorean government is "part of the general turnaround in Mexico's Central American policy," says Jorge Castañeda, a Mexican journalist and professor at the National University in Mexico City.

RANDY TAYLOR/SYGMA

De la Madrid: cozying up to United States?

Mexican policy toward Central America has changed steadily over the last two years. In the early 1980s, Mexico's policy was almost diametrically opposed to that of the Reagan administration: The Mexicans supported Nicaragua's Sandinista government. They believed that the Salvadorean guerrillas should share power with the Salvadorean government.

Today, as an economic crisis has made Mexico more economically dependent on the US, Mexico's government is trying harder to avoid confrontation with the Reagan administration over Central America. Mexican President Miguel de la Madrid Hurtado's conservative, business-oriented, economic policies have made him increasingly dependent on the cooperation of the Mexican private sector, which generally opposed a more radical Mexican foreign policy.

The naming of Federico Urruchua as Mexico's ambassador to El Salvador is seen as a step away from the guerrillas and a step closer to Duarte's government and to US policy. Mexico has not had an ambassador in El Salvador since a Mexican

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MEXICO from page 1

journalist was killed there in 1980, although relations between the two countries were never actually severed.

Mexican officials stress that strengthening ties with Washington was more "a favorable consequence" than an actual reason for appointing the ambassador.

A conservative shift in Mexican policy is apparent in the cooling of the de la Madrid administration's support for Nicaragua's Sandinista government.

In 1982 and 1983, Mexico supplied practically 100 percent of Nicaragua's oil. For the first nine months of 1985, Mexico supplied only 15 percent, while the Soviet Union supplied the remaining 85 percent.

Mexican analysts say it is unlikely that these figures will change significantly during the last three months of this year.

Mexico has also improved relations with Guatemala's right-wing government. Guatemalan refugees in Mexico have been moved away from the Mexican-Guatemalan border, as the Guatemalan government wished.

Finally, Mexico has largely abandoned its attempt to lead the Contadora Central American peace effort.

This retreat in Mexican policy, according to most analysts, was caused not only by the need to placate the US and the Mexican private sector, but also by the fact that the US was strong enough in Central America to stymie Mexican policy. US economic, military, and political influence on Central American governments like those of Honduras, El Salvador, and Costa Rica, was strong enough to block Mexican attempts at getting those countries to come to a peaceful arrangement with the Sandinistas.

Mexico helped found Contadora in the early '80s, in an attempt to counterbalance US influence in the area and bring about a regional settlement that would not be predicated on the overthrow of Nicaragua's Sandinistas and the crushing of the Salvadorean guerrillas.

In order not to arouse the strong nationalistic sentiments of the Mexican public and not to lose face with some of the country's Latin neighbors, Mexico is downplaying this shift in policy.

Mexican Foreign Ministry officials emphasize that oil shipments go to Nicaragua as usual. They stress that the new ambassador will help protect human rights. Most analysts, like Castañeda, say that "Mexico is attempting to maintain the appearance of continuity in its foreign policy without paying the costs of continuity."

Sepúlveda supported more radical foreign policy

Mexico previously stressed that the Salvadorean guerrillas represented a legitimate voice for social change. It called for negotiations between the Salvadorean government and the guerrillas, followed by some arrangements for sharing power between the two sides. Only after such negotiations, said Mexico, could there be free elections in which the guerrillas could freely participate.

But today Mexico seems to recognize the legitimacy of Duarte's government and of the 1984 Salvadorean elections. The Mexican government continues to call for negotiations between the government and guerrillas, but the calls for power-sharing have been muted.

All of this represents a political blow to the forces within the Mexican government which had supported Mexico's previous, more radical policy. These forces were headed by the current Mexican Foreign Minister Bernardo Sepúlveda Amor.

Many Mexican analysts believe that, although Mexico has retreated from its old policy, a new policy has yet to evolve.

"Mexico is in total confusion about its Central American policy," says Adolfo Aguilar, a Mexican academic. "It has no clear idea on what role it should play in promoting dialogue."

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Washington Post, Dec. 25, 1985, p. A18

U.S. Seen as Unhappy With Mexico's Policies

Central America to Be Discussed at Summit

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, Dec. 24—The United States remains irritated that Mexico has stuck to its pro-Nicaragua policies in Central America and to its Third World orientation at the United Nations, U.S. officials said this week as they assessed prospects for the Jan. 3 summit meeting between Presidents Reagan and Miguel de la Madrid.

The U.S. government considers that Mexico has made modest improvements in its Central America policy this year but has not gone nearly far enough to satisfy Washington, the officials said.

"What we're looking for is, are there subtle changes in their position that allow us to move closer together?" said a senior U.S. official who is familiar with preparations for the presidents' meeting. "We have different positions on Central America. We'll ask de la Madrid's position and see if it's changed at all," he added.

The U.S. officials' comments appeared designed to pressure Mexico to alter its foreign policy at a time when the de la Madrid government is seeking U.S. assistance in handling Mexico's $96 billion foreign debt. Mexico wants official U.S. support for its plans to borrow at least $4 billion in 1986 from international financial institutions such as the International Monetary Fund and the World Bank, and from U.S. and other foreign commercial banks.

Both U.S and Mexican officials said the meeting in the Mexican city of Mexicali would focus on economic and other bilateral issues rather than on foreign policy. But the U.S. officials clearly wanted to remind Mexico of continuing concern in Washington over this country's neutralist, Third World orientation in international diplomatic forums.

Diplomatic observers noted that this U.S. approach to the summit could be interpreted in part as a way to take advantage of policy differences within the Mexican administration. The U.S. officials focused their criticisms on Mexican positions that are espoused most prominently by Foreign Secretary Bernardo Sepulveda, who is the most visible left-leaning member of de la Madrid's Cabinet.

The U.S. officials took pains to point out that some of Sepulveda's positions are not shared by the entire Mexican government. One U.S. official noted that Sepulveda has taken a harder line on the debt issue than Treasury Secretary Jesus Silva Herzog, who is a favorite in Washington.

The half-day meeting will be the third between the two presidents since de la Madrid took office on Dec. 1, 1982. It has been dubbed the "border summit" because Mexicali is just across the international frontier from Calexico, Calif.

Neither U.S. nor Mexican officials held out hope for major progress at the meetings. Earlier hopes have disappeared for announcement of a breakthrough on a dispute of several years over tuna fishing rights in border waters, U.S. officials said.

"The key is that they get together," the senior U.S. official said. "It gets people focusing on the issues."

The U.S. side will be looking for "a show of support from Mexico" on the so-called Baker plan for aiding heavily indebted Third World nations, the senior U.S. official said. The plan, proposed by Treasury Secretary James A. Baker III, calls for fresh loans of $29 billion during the next three years in return for economic adjustment measures on the part of borrowers.

So far, Mexico has welcomed parts of the Baker plan, such as its emphasis on economic growth rather than austerity measures. But Mexico also has joined other Latin American countries in criticizing the plan as offering too little new cash.

There were signs that the Mexican government might adopt a more aggressive line on the debt issue by pressing harder for relief from the burden of interest payments, U.S. officials said. So far, however, Mexico has not followed the examples of Peru and Brazil in running its economy independently of conventional IMF prescriptions.

The U.S. officials acknowledged that Mexico has made changes that have narrowed its differences with Washington over Central America during the past year. Mexico has cut back sharply its subsidized oil shipments to Nicaragua, for instance, and has restored full diplomatic relations with the U.S.-backed government of El Salvador.

But the senior U.S. official characterized these changes as relatively minor. He criticized Mexico for supporting resolutions sympathetic to Nicaragua in the United Nations, and of indulging in what he called "name-calling" there against South Africa and Israel.

"I don't see an overall pattern of a shift" in Mexican foreign policy, the official said. "What we want to see is some actions."

There were indications that some U.S. Embassy personnel and the Mexican government felt slighted by what they see as the White House's lack of interest in the meeting. Several embassy sources and Mexican officials suggested that Reagan should have scheduled more than four hours for the sessions.

"The White House just slipped this into Reagan's schedule because it was convenient," an embassy source said. The president will stop in Mexico while returning to Washington from his California vacation.

In addition, Mexico wants to give more visibility to the meeting than the United States does, U.S. and Mexican officials said. Mexico was pushing for a joint press conference by Sepulveda and U.S. Secretary of State George P. Shultz after the sessions, while the United States wanted just to issue prepared statements and then hold "background" briefings for journalists by officials whose names could not be published.

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DEC 6 1985 p. A1, A34

JX1428 L.A. Mexico

Mexico Cuts Back Role in Central America Talks

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, Dec. 5—The Mexican government is cutting back on its activist role in Central America because it is frustrated at the lack of progress in peace talks there and because it needs to concentrate more on solving its own economic problems, senior Mexican administration sources said today.

Mexico also will take a harder line in coming months in negotiations over repayment of its $96 billion foreign debt, the sources said. President Miguel de la Madrid will ask President Reagan at a meeting on Jan. 3 to support new measures to ease Mexico's debt burden, and the Mexican may propose a ceiling on interest rates for some loans, they said.

Mexico has been one of the leading members of the the Contadora group, which is seeking to negotiate a general peace agreement in Central America. It will continue to participate but is placing a lower priority on that effort, the sources said.

They said that none of the parties involved in the conflicts in Central America—including Nicaragua and the United States—has "the political will" to reach a settlement.

The Contadora talks have reached a deadlock in recent weeks after the group failed to meet a self-imposed deadline for a peace treaty.

The sources, who are close to de la Madrid, described these shifts in approach to Central America and to the debt issue when asked in an interview about Mexico's hopes for the scheduled meeting between the two presidents in the Mexican border city of Mexicali.

In sharp contrast with the four previous meetings between de la Madrid and Reagan, the Mexican leader may not even raise the issue of Central America at the session, the sources said.

"We're not going to have a meet-

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Mexico Shifts Priorities From Central America

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MEXICO, From A1

ing with President Reagan to insist on discussing a problem that nobody wants to solve," a senior Mexican official said of Central America.

Instead, the official said, "We have great hopes that this [meeting] will be the start of negotiations for new financial relations between Mexico and our creditors." Under these new relations, he said, Mexico would be granted additional time to repay its debt and would be guaranteed fresh foreign loans in 1986.

Mexico's new approach comes in response to several fundamental developments in recent months, according to the Mexican sources and to foreign observers. These include the current stalemate in Central American peace talks, a substantial worsening of Mexico's economic performance, and the proposal by Treasury Secretary James A. Baker III for new commercial lending to help Latin America with its debts.

These developments apparently have led Mexico to seek a kind of trade-off with Washington. Mexico seems to be saying that it will stop working so hard to champion the cause of Nicaragua in the peace talks—which are not going anywhere anyway—and it hopes that the United States will respond by giving it more help in managing its debt.

Another factor in the debt negotiations is domestic political pressure on the government to seek more concessions. The officials noted that other Latin American debtors, notably Peru and Brazil, adopted tougher bargaining positions this autumn.

The Mexican officials' comments confirmed previous indications that the government was trying to narrow the gap with Washington on Central America. Mexico has cut sharply its oil shipments to Nicaragua during the past year, for instance, and it has patched up relations with El Salvador's U.S.-backed government.

The Contadora group includes Colombia, Venezuela and Panama as well as Mexico, but Mexico has irritated Washington by serving as the group's leading defender of Nicaragua's interests.

For example, at their last meeting in May 1984 in Washington, de la Madrid successfully urged Reagan to begin direct talks with the Sandinista government. The talks were held at the Mexican Pacific Coast resort of Manzanillo until Washington suspended them in January.

Earlier this week, de la Madrid indicated that Mexico was drawing back a step from Central American peace efforts when he emphasized in an interview with the Mexico City newspaper Excelsior that Mexico's foreign interests were not limited to Contadora alone.

So far there has not been any sign of a shift in Mexico's positions within the Contadora group itself. In recent days, Mexican diplomats have fought hard at the United Nations and at a meeting of the Organization of American States in Cartagena, Colombia, on behalf of resolutions that were favorable to Nicaragua.

But these efforts appeared to be holding actions designed mainly for public relations purposes. In addition, Mexican Foreign Secretary Bernardo Sepulveda is known to be more enthusiastic than other members of the government, including de la Madrid, about pursuing Contadora peace efforts.

"Sepulveda has to give the appearance of trying as long as he can, but he knows it's a losing battle," said a diplomat who monitors Contadora.

Nicaragua has said that it will not sign a Contadora peace treaty unless the United States pledges to halt support for the Nicaraguan antigovernment rebels. The United States has rejected that demand, so prospects for a Contadora accord appear to be nil.

Regarding the coming meeting between de la Madrid and Reagan, the Mexican sources emphasized that they did not want differences over Central America to detract attention from what they called the more pressing issues of U.S.-Mexican bilateral relations.

"There is no purpose in dedicating this meeting to Central America when it is more important for Mexico to discuss its own problems with the United States," an official said.

He listed the top issues of interest to Mexico at the meeting as the debt negotiations, immigration reform and trade. "If they have time, maybe they will also include Central America," he said.

Mexico is hoping that the United States will give it new support on economic issues because of recent steps taken by the government here to lower trade barriers and open doors to foreign investment. The U.S. government strongly supports these measures, particularly Mexico's recent announcement that it will subscribe to the General Agreement on Tariffs and Trade.

In particular, the official said that Mexico wants "more realistic terms for the debt," but he was not specific about what that would mean.

He said that the government might propose to pay fixed interest rates on some of its commercial loans, which would represent a sharp break with past policy.

Bankers prefer to set the interest on the debt as a floating rate that fluctuates automatically with other interest rates used as an index.

"It would be perfect if we could get 6 percent. The banks will not be very happy to do it, naturally," the official said. Another possibility was a mechanism to fix a ceiling on interest payments.

"What we want is a situation where we can breathe with more oxygen," the official said. "If we don't get help to grow, then we won't be able to fulfill our commitments" to repay the debt.

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CHRISTIAN SCIENCE MONITOR
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Mexican policy shifts in Central America

By Dennis Volman
Staff writer of The Christian Science Monitor

When the Mexican government named an ambassador to El Salvador last week, many Mexicans saw it as a move to strengthen ties with Washington.

Mexico's efforts to boost relations with the US-backed Salvadorean government is "part of the general turnaround in Mexico's Central American policy," says Jorge Castañeda, a Mexican journalist and professor at the National University in Mexico City.

RANDY TAYLOR/SYGMA

De la Madrid: cozying up to United States?

Mexican policy toward Central America has changed steadily over the last two years. In the early 1980s, Mexico's policy was almost diametrically opposed to that of the Reagan administration: The Mexicans supported Nicaragua's Sandinista government. They believed that the Salvadorean guerrillas should share power with the Salvadorean government.

Today, as an economic crisis has made Mexico more economically dependent on the US, Mexico's government is trying harder to avoid confrontation with the Reagan administration over Central America. Mexican President Miguel de la Madrid Hurtado's conservative, business-oriented, economic policies have made him increasingly dependent on the cooperation of the Mexican private sector, which generally opposed a more radical Mexican foreign policy.

The naming of Federico Urruchua as Mexico's ambassador to El Salvador is seen as a step away from the guerrillas and a step closer to Duarte's government and to US policy. Mexico has not had an ambassador in El Salvador since a Mexican

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journalist was killed there in 1980, although relations between the two countries were never actually severed.

Mexican officials stress that strengthening ties with Washington was more "a favorable consequence" than an actual reason for appointing the ambassador.

A conservative shift in Mexican policy is apparent in the cooling of the de la Madrid administration's support for Nicaragua's Sandinista government.

In 1982 and 1983, Mexico supplied practically 100 percent of Nicaragua's oil. For the first nine months of 1985, Mexico supplied only 15 percent, while the Soviet Union supplied the remaining 85 percent.

Mexican analysts say it is unlikely that these figures will change significantly during the last three months of this year.

Mexico has also improved relations with Guatemala's right-wing government. Guatemalan refugees in Mexico have been moved away from the Mexican-Guatemalan border, as the Guatemalan government wished.

Finally, Mexico has largely abandoned its attempt to lead the Contadora Central American peace effort.

This retreat in Mexican policy, according to most analysts, was caused not only by the need to placate the US and the Mexican private sector, but also by the fact that the US was strong enough in Central America to stymie Mexican policy. US economic, military, and political influence on Central American governments like those of Honduras, El Salvador, and Costa Rica, was strong enough to block Mexican attempts at getting those countries to come to a peaceful arrangement with the Sandinistas.

Mexico helped found Contadora in the early '80s, in an attempt to counterbalance US influence in the area and bring about a regional settlement that would not be predicated on the overthrow of Nicaragua's Sandinistas and the crushing of the Salvadorean guerrillas.

In order not to arouse the strong nationalistic sentiments of the Mexican public and not to lose face with some of the country's Latin neighbors, Mexico is downplaying this shift in policy.

Mexican Foreign Ministry officials emphasize that oil shipments go to Nicaragua as usual. They stress that the

UPI

Sepúlveda supported more radical foreign policy

new ambassador will help protect human rights. Most analysts, like Castañeda, say that "Mexico is attempting to maintain the appearance of continuity in its foreign policy without paying the costs of continuity."

Mexico previously stressed that the Salvadorean guerrillas represented a legitimate voice for social change. It called for negotiations between the Salvadorean government and the guerrillas, followed by some arrangements for sharing power between the two sides. Only after such negotiations, said Mexico, could there be free elections in which the guerrillas could freely participate.

But today Mexico seems to recognize the legitimacy of Duarte's government and of the 1984 Salvadorean elections. The Mexican government continues to call for negotiations between the government and guerrillas, but the calls for power-sharing have been muted.

All of this represents a political blow to the forces within the Mexican government which had supported Mexico's previous, more radical policy. These forces were headed by the current Mexican Foreign Minister Bernardo Sepúlveda Amor.

Many Mexican analysts believe that, although Mexico has retreated from its old policy, a new policy has yet to evolve.

"Mexico is in total confusion about its Central American policy," says Adolfo Aguilar, a Mexican academic. "It has no clear idea on what role it should play in promoting dialogue."

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NEWSDAY, MONDAY, SEPTEMBER 2, 1985

Mexico's Oil Is Leverage On Nicaragua

By Roy Gutman
Newsday Washington Bureau

Mexico City — Mexico, once the sole supplier of oil to Nicaragua and its leading non-Communist backer in world forums, has moved toward neutrality in the Central American conflict by curtailing support and stepping up criticism of the Sandinista regime.

The shift over two years has been a blow to Nicaragua, which viewed Mexico as the keystone in its arch of international support. The shift has drawn little attention in most capitals, but led to near-panic in Managua April 16. That was the day Mexico secretly informed Nicaragua it would have to pay 80 percent cash for future oil deliveries. Nicaragua has no hard currency and an oil debt to Mexico nearing $600 million, so the meaning was clear: no more oil.

This was followed by a chain reaction of events.

- President Daniel Ortega of Nicaragua flew to Moscow and obtained formal guarantees to make good any oil shortfall.
- Ortega's trip provoked a dramatic change in mood in Washington. Congress had just rejected President Ronald Reagan's request for $14 million in aid to contra rebels who seek Ortega's overthrow. Following the announcement of Ortega's trip, Reagan embargoed all trade with Nicaragua and Congress approved $27 million for the contras.
- Together, Ortega's Moscow visit, the embargo and U.S. funds for the rebels further complicated the already flagging efforts by Mexico, Colombia, Panama and Venezuela to resolve the Nicaragua issue through a negotiated settlement with its neighbors. The four "Contadora" countries are split over how to deal with all these events, and Nicaragua walked out of the mediating effort.
- Reacting to Reagan's embargo, Mexico decided in June to resume oil shipments to Nicaragua, giving the episode an ironic twist: First, in view of Mexico's reversal, Ortega needn't have traveled to Moscow; indeed he may have overreacted to the Mexican decision. But Reagan overreacted to the vote in Congress and Ortega's trip, and imposed an embargo that unwittingly overturned Mexico's "embargo," which could have been devastating.

The first tanker-load of Mexican oil, once again purchased on credit, arrived in Nicaragua last month.

That one action could contribute to so many unforeseen repercussions illustrates the volatility and risks of diplomacy in a region rife with tensions, severe economic woes and superpower involvement. Indeed, every party to the recent events has now taken a step it would probably have preferred to avoid. Mexico, faced with a $96-billion debt and dependent on export of oil, whose price is falling, has drawn back from a decade of efforts to project its political influence. Nicaragua, its economy in shambles and

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dependent on benefactors for half its imports, has nowhere to turn in the vacuum but Moscow. The Soviet Union, which had kept a certain distance from Nicaragua for good reasons on both sides, now is reported to have made a top-level formal commitment to supply oil.

Despite the reversal on oil sales, there is growing evidence that President Miguel de la Madrid of Mexico intends to keep adding distance between his government and that of the Sandinistas. Lately, Mexican leaders have been bad-mouthing the Sandinista regime in private and in public. De la Madrid, while in Europe in June, refused to take a telephone call from Ortega. He also snubbed Nicaraguan Vice President Sergio Ramirez, refusing to talk with him even though both were in Barcelona at the same time.

While in Spain, de la Madrid publicly criticized the Sandinistas. "The Sandinistas should carry out their promises to create a pluralistic democracy and to respect liberties as well as to be nonaligned with the Soviet bloc," he told the newspaper El Pais.

Even Foreign Minister Bernardo Sepulveda, whose advocacy of close ties with Nicaragua places him far left-of-center in de la Madrid's government of technocrats and bankers, now criticizes the Sandinistas. Sepulveda privately has blamed Nicaragua for the lack of progress by the Contadora group and in the Mexican-sponsored talks between Nicaragua and the United States.

Last week, Mexico announced it was sending an ambassador to U.S.-supported El Salvador for the first time in five years — a move that had been urged by Washington. The last ambassador was withdrawn to protest the killing of a Mexican journalist.

One mystery is the extent to which Mexico's policy shift resulted from U.S. persuasion. U.S. officials say Mexico's economic problems and increasing vulnerability were the primary reasons for the policy shift. Victor Hugo Tinoco, the Nicaraguan vice foreign minister, blames "international financial pressure . . . internal problems . . . and the right inside the country." In a recent interview with the Mexican newspaper Excelsior, Henry Ruiz, one of the nine commandantes of the ruling Sandinista directorate, accused the United States of "subverting internal Mexican politics."

A non-U.S. diplomatic source in Mexico City who asked not to be named describes a scheme under which the Reagan administration, operating with exceptional diplomatic skill, was able to turn de la Madrid's cabinet against Nicaragua.

"Let's say the agriculture minister goes to the United States to discuss exporting tomatoes or fruits," the diplomat said as an example. "The U.S. agriculture secretary says to him: 'I don't have any problem with this. I'm willing to help you. But I need the authority of the United States. But the State Department doesn't like your foreign policy.'

"So the agriculture department comes back and says to de la Madrid, we could solve this issue of the export of fruits and vegetables but the State Department won't give the green light."

The source asserted this had actually occurred in the past year and the result was the isolation of Sepulveda, the foreign minister, in the cabinet and a succession of decisions by de la Madrid not to supply Nicaragua with the oil it needs. A senior Mexican Foreign Ministry official confirmed the thrust of the story, but said economic interest, not foreign policy, was the main determinant of the U.S. position. Agriculture Secretary John Block refused to respond to repeated inquiries.

State Department aides do not claim credit for Mexico's policy shifts. But a high official confirmed the method of operation. He said it was "logical" to put every type of pressure on Nicaragua, and he added: "It is not usually done in a direct manner. We deal more effectively with Mexico indirectly."

All of this clearly distresses the Nicaraguans, who see Mexico as the symbol of an alternative to Reagan's policy. One source commented: "If Mexico abandons Nicaragua, Latin support would be debilitated, aid from Western Europe would be insignificant by comparison and the backing from the socialist countries would have less viability."

The source added: "Mexico has gone away from Nicaragua. But it can't get much further away. Their self-interest would not permit it." He said the Mexicans "know perfectly well that the destruction of the Sandinista regime, which is the aim of the Reagan administration, will not give stability to their southern frontiers."

Mexico's transformation began two years ago, mainly for economic reasons. One year after the Nicaraguan revolution, in 1980, Mexico and Venezuela agreed jointly to supply all of Nicaragua's oil needs as part of an agreement to provide oil on favorable credit terms for countries in the Caribbean basin. Venezuela halted the flow for Nicaragua in August, 1982, saying it wasn't being paid. Mexico picked up the slack and supplied all the oil for more than a year. Then, in 1983, Mexico interrupted the oil supply until Nicaragua formally acknowledged its debt and promised to repay it.

In 1984, Mexico informed Nicaragua that it would have to find a second supplier, and by year's end, the Soviet Union provided 45 percent of the oil needs. Since then, oil flow has been erratic — only one Mexican tanker-load went to Nicaragua. That was in March, before Mexico reversed itself, and after Ecuador canceled an agreement to supply Nicaragua. Now the Soviet share is at 85 to 90 percent.

In late February, Mexico announced a halt in all shipments to Nicaragua as well as Costa Rica because of unpaid debts. But the Nicaraguans did not react until they heard it directly when Ruiz visited Mexico in mid-April.

Sources in Mexico City said de la Madrid personally broke the news to Ruiz on April 16 that there would be no further oil shipments unless Managua paid 80 percent cash up front. The message, according to Tinoco, was: "We're not in a position to supply any more oil unless you pay cash for the oil that you receive."

Ruiz telephoned Managua and suggested that Ortega had better act quickly. The next day Ruiz told Mexican officials that Ortega would go to Moscow on May 5 to seek commitments to pick up the slack. The trip had been planned in a general way for at least six weeks, but the level was not set nor the date.

Nicaraguan officials agree that the Ortega trip has cost them in public opinion in the region, but say they had no choice. Indeed Ortega did not go to Moscow only to make good the Mexican shortfall but also to obtain a top level formal commitment to provide oil.

"It was a strategic matter. We simply didn't have oil," a Nicaraguan source said. "He had to conclude an agreement very formally and at the highest levels to avoid the risk of a U.S. naval blockade that would block the supply of oil. We knew there was a price to it."

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Mexicans Preparing to Resume Full Salvador Ties

By RICHARD J. MEISLIN
Special to The New York Times

MEXICO CITY, Aug. 28 — Mexico is preparing to restore full diplomatic relations with El Salvador after five years, a Mexican Government official said today.

The expected move is the latest in a series of steps that have indicated a gradual warming of relations between the two countries.

Mexican Government officials credit the election of José Napoleón Duarte as President of El Salvador last year, but Mexican political commentators — particularly those on the political left — attribute the improvement in relations to the more conservative style of foreign policy being followed by the Administration of President Miguel de la Madrid, who took office in December 1982.

The Mexican official, as well as a source knowledgeable in diplomatic affairs here, said the Ministry of Foreign Relations would name Federico Urruchua Durand, currently the Mexican Ambassador to Jamaica, to head the mission in San Salvador. Although Mexico has maintained its mission there, it has been without an ambassador since 1980.

Announcement Is Expected

An official announcement is expected within the next few days, the Mexican official said.

Mexico removed its Ambassador from El Salvador in August 1980, during the administration of former President José López Portillo, to protest the killing of a Mexican journalist by Salvadoran military forces.

After 1980, relations between the two countries grew increasingly tense. In 1981, along with France, Mexico issued a statement recognizing the leftist insurgents fighting the Salvadoran Government as a "representative political force" and urged the Salvadoran Government — then led by a junta that Mr. Duarte headed — to negotiate with the rebels in order to create "authentically free" elections.

Some Latin American countries criticized Mexico at the time for meddling in the affairs of its neighbors. On the other hand, the statement was viewed as an important element in the emergence of political support in Western Europe for the rebels.

While Mexico has not repudiated the position it adopted with the French, the current administration has not widely promoted it as a foreign policy touchstone, as Mr. López Portillo did.

Mr. Duarte has, meanwhile, held limited private talks with representatives of the guerrillas, who have been fighting against the Government in a civil war now nearly five years old. Little substantive progress has been made at the negotiating table, however.

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MAY 31 1985

NEWS IN BRIEF

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Mexico to supply Nicaragua with some oil again

Mexico City

Mexico has agreed to supply Nicaragua with a small amount of oil.

More than anything else, the agreement, announced late Wednesday, is a symbolic gesture of solidarity with Nicaragua in response to the United States trade embargo that began earlier this month.

The amount in question, 320,000 barrels, to be supplied on preferential terms, covers only 25 days of Nicaraguan oil needs.

It is to be delivered sometime between July and September. Some 410,000 barrels will be supplied at an unspecified future date on terms to be agreed upon later.

The accord comes within the context of a general agreement on expanded trade relations between Nicaragua and Mexico negotiated in Managua this week.

Nicaragua consumes some 12,500 barrels of oil daily, and until the end of 1983 most of that oil was supplied by Mexico.

The Mexican government's official reason for the cutoff was that Nicaragua was not able to pay the preferential prices agreed upon.

Nicaraguan President Daniel Ortega Saavedra recently returned to Nicaragua from Eastern and Western Europe with a commitment from the Soviet Union that it would supply 80 to 90 percent of Nicaraguan oil needs.

Although Nicaragua defaulted on oil payments at a time when Mexico was going through a severe financial crisis, many academic and diplomatic analysts here feel there was more to it than that.

According to these analysts, Mexican President Miguel de la Madrid Hurtado's policy of relying on foreign and Mexican private-sector investments to end the crisis has made him extremely vulnerable to both the Reagan administration and Mexican private-sector wishes.

These analysts say that both the US and the Mexican private sectors have been strongly pressing the Mexican government to end oil shipments for some time.

The oil cutoff evoked strong criticism, however, among left-wing and labor union circles here, which form an important part of the ruling parties' power base. This criticism was exacerbated by the US trade embargo.

— Dennis Volman

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Central American Conflicts Strain Mexico's Tradition of Asylum

MEXICO CITY — For a country as fiercely nationalistic as Mexico, it was a paradoxical moment. In the early 1940s President Manuel Avila Camacho decreed that the Mexico City town hall should be considered temporarily as Spanish territory. The purpose was to allow a session of the Cortes (parliament) of the Spanish republic in exile where a vote could be held to choose a successor to Spanish President Diego Martinez Barrios. Many Mexican legal experts, aware of their country's long history of foreign intervention, sharply questioned the propriety and constitutionality of surrendering sovereignty over national territory to a foreign country—even for a few hours. But the Mexican government was so eager to play the role of a good host to this group of political exiles that it chose to disregard a dangerous precedent.

The Americas

by Sergio Sarmiento

Mexico is manifestly proud of its tradition of political asylum. Aside from the Spanish republicans in the 1930s and 1940s, the country has welcomed considerable numbers of European Jews fleeing Nazism, sympathizers of Guatemalan President Jacobo Arbenz (deposed by a coup in 1954), Chileans, Argentineans and Uruguayans in the 1970s, and more recently large groups of Guatemalan peasants and other Central Americans. The right to political asylum, according to Gustavo Iruegas, a Mexican diplomat, is practiced by Mexico in "its purest form."

Not everyone agrees, however. Gilberto Lopez y Rivas, director of the National School of Anthropology and History, and also a member of the Mexican Committee of Solidarity with the Salvadoran People, argues that Mexico's refusal to sign the 1951 Geneva Convention on Refugees or its 1960 Protocol has resulted in highly discretionary policies toward different groups of refugees. There is "social discrimination against Salvadoran refugees which determines who is classified as an exile and who is not," he claims. Others say that the Mexican government has been more willing, in general, to welcome the white-skinned, highly educated exiles from Spain, Chile, Argentina and Uruguay than the largely illiterate Guatemalan peasants or the unskilled workers from the rest of Central America.

From a different perspective, some critics argue that there is a political bias in Mexico's practice of political asylum. They point out that the warm welcome offered to leftist exiles hasn't been extended to people fleeing from communist regimes. "Evidently, Cubans were not received as readily as the Spaniards, the Chileans or the Argentineans," says a Cuban-born editor now living in Mexico. "Individuals like me could get in if helped by high government officials. But there is no doubt that there was a different attitude toward Cubans."

Mexican officials bristle at the suggestion that their country's policies toward refugees might be politically or socially biased. "I don't believe that a claim like this could be documented," says Oscar Gonzalez, head of the Mexican Commission for Assistance to Refugees. But he adds: "It is possible that, as a place of open choice, Mexico might have been more attractive for some than for others."

Mr. Iruegas claims that "no less than 400 people were granted diplomatic asylum" in Mexico's embassy in Havana, where he was posted when Fidel Castro took power, and he points out that many thousands more were allowed to stay in Mexico temporarily on their way to asylum in the U.S. Yet he makes no attempt to conceal his low opinion of many of these refugees: "The people who fled Cuba were gangsters, property owners, people linked to the army." And he adds: "We don't think that a Cuban who wants to leave his country to live in the United States is politically persecuted."

Because of the geographical distance to the refugees' countries of origin, past controversies surrounding Mexico's practice of the right to asylum were relatively unimportant. But the conflicts of Central America have given a new urgency to the issue. The number of Central Americans who have been arriving in Mexico in recent years could very well reach 200,000. The new inflow has provoked debates on the very definitions of "exile" and "refugee." Government officials say that most Central Americans in Mexico are really illegal immigrants looking for job opportunities either in this country or in the U.S. Organizations helping them claim that only about 15% have traveled to Mexico for purely economic reasons, and that even those should be considered "war refugees." But even Mr. Lopez y Rivas concedes that most Salvadoran "refugees" come to Mexico en route to the U.S.

The greatest risk today for Mexico in its handling of refugees is the possibility that the country might be dragged into a direct involvement in Central America's conflicts. The Guatemalan government has claimed that some of the refugee camps have been used as bases for guerrilla operations in Guatemala, a charge that has been denied by refugee groups. Fidel Hernandez, a Spanish-born Guatemalan priest working for a group of Catholic church committees set up to help the Guatemalan refugees, points out that most of them are women and children, although he acknowledges that "there have to be some individual people who undertake political activities." He adds that the refugees have a "clear political project . . . a change in a society structured on the basis of exploitation."

In 1984 a number of armed attacks on the refugee camps, allegedly coming from Guatemala, severely strained relations between Mexico and its southern neighbor. This convinced the Mexican government to begin a program to move the camps to new locations north of the border, in the states of Campeche and Quintana Roo. The decision was criticized by Mexican leftists, and by leaders of some refugee groups, who claimed these Guatemalan Indians, had a deep attachment to the land of their Mayan ancestors. The Mexican government responded that the new camps were also within the Mayan zone of influence, and in locations where there was more land available for the refugees. There was an additional reason, though: to prevent the use of Mexican territory as staging ground for guerrilla activities. To this date about 18,000 refugees have been voluntarily relocated.

For all the controversy, many of the refugees who have come to Mexico in the past have chosen to remain here—even after the political circumstances that provoked their exile have disappeared. For many, the roots established in Mexico couldn't be severed yet again. Ricardo Harte, an Uruguayan architect with two children born in Mexico, explains his decision not to go back to Uruguay—now a democratic country—after an exile begun in 1973: "I can sacrifice my political life and I can sacrifice my professional life. But I'm not going to sacrifice my family life." An integration such as this, however, might not be as easy for the new wave of Central American refugees.

Mr. Sarmiento is editor in chief of Encyclopaedia Britannica's Spanish-language publications and a columnist for the Mexico City daily El Financiero.

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A15

Mexico, U.S. Differ on Talks With Managua

By Robert J. McCartney
Washington Post Foreign Service

MEXICO CITY, July 26—Mexican Foreign Secretary Bernardo Sepulveda, commenting on two days of meetings here with U.S. Secretary of State George P. Shultz, criticized the United States today for refusing to resume talks with Nicaragua's leftist government.

Shultz, who departed this morning with a high-ranking U.S. delegation, reaffirmed the U.S. position that such talks will remain suspended until the Sandinista government agrees to meet with representatives of Nicaraguan antigovernment guerrillas.

The dispute over Central America, which had been expected, was the only significant point of public disagreement following the talks on a wide range of subjects. Shultz called the meetings "fruitful," while Sepulveda said that they were "very successful from all points of view."

The two countries agreed to begin meetings in September to explore the possibility of negotiating a "framework agreement," or set of procedures, for resolving trade and investment disputes. Mexico also agreed to establish new immigration and customs posts at four bridges over the Rio Grande.

In the first official U.S. statement on widely reported voting irregularities in Mexico's July 7 elections, Shultz said that "these are matters for the people of the country to discuss." The U.S. Embassy here carefully has avoided making any comment on the allegations.

Sepulveda said that the U.S. refusal to talk with the Sandinistas was hurting peace efforts in Central America. Washington suspended direct talks with Nicaragua, which were hosted by Mexico, in January.

"We think that the cancellation, or suspension, of these conversations is not useful. It does not help the Contadora process," Sepulveda told a news conference shortly after seeing off Shultz at the airport.

Mexico is one of four members of the Contadora group, which has been trying for more than two years to hammer out a regional peace package. The group, which also includes Venezuela, Colombia and Panama, issued a formal call Monday for the United States to resume talks with Nicaragua.

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JN for LA Mexico

Mexico's one-party democracy feels the heat.

FIRE IN THE PAN

BY WILLIAM ORME

NINETEEN EIGHTY-FIVE will be Mexico's most critical political year since 1968. That year antigovernment protests were quashed by the massacre of more than 200 leftist demonstrators on the half-excavated ruins of an Aztec temple in downtown Mexico City. Unlike 1968, however, the threat to the government and its Institutional Revolutionary Party (PRI), which has controlled Mexico's politics for the last 56 years, is now coming from the right, from political amateurs who heretically question the national orthodoxy of statism and anticlericalism, and profess admiration for Reaganomics, venture capitalists, and Pope John Paul II. Unaccustomed to serious political competition, the PRI appears undecided whether to respond with co-optation, a minor cession of power, or repression.

The challenge is led by the conservative National Action Party, or PAN. The PAN, although it is 34 years old and has never won a major election, has been revitalized by a recent influx of small-town mayors, newly politicized business leaders, and other earnest middle-class reformers. The pro-business PAN, rather than the fractious, ineffectual Marxist left, has been the main beneficiary of resentment at the massive corruption and managerial ineptitude exposed by Mexico's debt crisis in mid-1982. The PAN since then has won an unprecedented string of mayoral contests in key state capitals. Now campaigning is under way for the July 7 midterm elections of seven state governors and all 400 members of the Chamber of Deputies, the Congress's lower house.

Whatever real political gains the PAN might make this year, though, would be far less important than the symbolic, almost mythic, impact of a PRI defeat in a major race. The PRI has never lost a national or state election. Party leaders worry that Mexicans might begin thinking the ultimate unthinkable—that the PRI could one day be voted out of power. The PRI's profound fear is that the electorate will embrace the exotic concept of "alternation in power"—throwing the rascals out peacefully by ballot. The notion is now advocated by prominent Mexican intellectuals from the Marxist left to the social democratic center to the free-market right. But the PRI's gubernatorial candidate in Sonora, Rodolfo Felix Valdez, voiced the party line last month: a "two-party system would prove highly dangerous for Mexico."

In Sonora, there is no question that the emergence of a two-party system has proven dangerous for Valdez. He is a colorless Mexico City bureaucrat facing a boisterous PAN candidate who has tapped the deep provincial distrust of the PRI leadership coterie in the capital city. In fact, despite the PRI conceit of referring to itself as simply "the majority party," it is already being reduced to a plurality party in those regions where Mexico is most urbanized, industrialized, and literate. The PAN can probably now expect between a third and a half of the votes in border-belt cities such as Tijuana, Mexicali, and Ciudad Juárez, all of which have more than a million inhabitants. The PAN should do equally well in Monterrey, the bastion of private industry, and Mexico City, where the parties of the left shave another 15 percent off the PRI's vote. With Mexico inexorably modernizing, what this portends for the PRI's future should be unnervingly apparent to the party's strategists.

The PAN is united only by opposition to the government and an inchoate loathing of all things leftist. Nevertheless, it is uniquely well positioned to exploit the vulnerabilities of the PRI. The PAN's president is Pablo Emilio Madero, a former engineer and the grandnephew and putative political heir of Francisco Madero, Mexico's first revolutionary-era president. Francisco Madero was an idealistic northerner who was assassinated in 1913. He is mourned by some modern historians, such as Enrique Krauze, the editor of the monthly review *Vuelta*, as "Mexico's last true democrat."

By dint of caste and commitment to the rule of law, Francisco Madero and his followers were at odds with their insurgent allies, Pancho Villa and Emiliano Zapata, the radical advocates of justice for the peasantry. It is the mystical, populist "Villista" and "Zapatista" image of the Revolution that has been doctrinally enshrined in PRI-governed Mexico. Many of Madero's central demands—an independent judiciary and legislature, autonomy for local governments, the peaceful transfer of political power by majority vote—have been accorded only the perfunctory formality of a constitutional clause. Yet the PAN today is consciously reviving this old "Maderista" program with some success.

It is ironic that President Miguel de la Madrid and his team of fiscally prudent technocrats are under fire from the right. The administration may be the most conservative in Mexico in three decades. "Populist" is an epithet to de la Madrid. Since assuming power in December 1982, he has deliberately distanced himself from the free-spending, demagogic style of his generally discredited predecessors, José Lopez Portillo (1976-82) and Luis Echeverria (1970-76). His tough

William Orme covers Mexico for *The Economist* and *The Washington Post*.

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austerity program and adept debt negotiating are applauded by most corporate leaders, domestic and foreign.

Yet as Lopez Portillo's onetime budget minister and handpicked successor, de la Madrid is inevitably held accountable for the system's sins. "Who controlled Lopez Portillo's spending?" asks the PAN's Casamiro Navarro Valenzuela, who was elected mayor of Hermosillo in an anti-PRI protest vote two years ago. "Didn't de la Madrid know where the money was going? Isn't he responsible, too?"

The 1982 financial disaster could still prove to be "the PRI's Falklands," Lorenzo Meyer, a respected political columnist, suggested last month in *Excelsior*, Mexico's leading newspaper. The debt debacle may have given Mexico the opportunity to revitalize its democracy just as the humiliation of the military did in Argentina. Octavio Paz said in 1982, "If we don't wish to expose ourselves to grave harm, the Mexican system will have to be renewed through internal democratic transformation."

The survival of the Mexican system is not at stake in 1985, but its character may be. Supporters and opponents agree that de la Madrid would prefer to win the July elections cleanly. To ensure a high turnout of the PRI's rural and labor base, the government is channeling public works projects into key districts and lending state resources to the party's local campaigns. And if, despite these efforts, federal authorities were forced to ratify a convincing PAN gubernatorial triumph, one presidential aide noted, "it would improve our democratic image" both at home and abroad.

But many powerful PRI leaders believe the government cannot afford defeat anywhere. "We haven't lost an election in half a century and we're not about to start now," grumbles veteran labor boss Fidel Velazquez, who loyally tolerated drastic real wage cuts. Velazquez was rewarded with a gubernatorial nomination for an ally and a quarter of the PRI's congressional nominations for his union cronies, prototypically the kind of candidate the middle class most abhors. Some old-line party bosses argue that if their victories can be secured only by systematic fraud, so be it. "There are a lot of people in the party who think that we have to win at whatever cost," the de la Madrid aide acknowledged, while insisting "the president doesn't share that view."

THE 1985 POLITICAL season began ominously with Christmas week riots in the northern border town of Piedras Negras. A clumsy government attempt to overturn a PAN mayoral victory led angry oppositionists to blockade the international bridge over the Rio Grande. The demonstrators battled police in the streets with handguns and torched the town hall, all in full view of U.S. television crews. This display of violence was a major embarrassment to the government and the PRI's leadership. But instead of serving as a cautionary example, the Piedras Negras riots probably strengthened PRI hardliners like Velazquez, who proposed the cancellation of the PAN's legal registry in reprisal. It is already clear that in July the party plans to claim majority wins in all seven statehouse contests and in all but a handful of congressional districts. The government expects the PAN to denounce and document fraud but not in enough cases to conclusively document nationwide electoral robbery. And though more violent street protests are anticipated, party and federal government officials predict that they will be localized and easily controlled.

THE INSTINCT of the PRI to simply "tighten the screws," as one Mexican official said, represents a greater long-term threat to Mexico's stability than do more visible problems such as the turmoil in Central America and the $96 billion debt. Mexico is far from being a police state. There is more genuine pluralism within the PRI than in the entire functioning aboveground political spectrums of a Guatemala or an El Salvador. Yet the government is not hesitant about resorting to extralegal means to intimidate dissidents. Many, if not most, opposition politicians, diplomats, journalists, and high government officials operate under the assumption that their telephones are tapped. Political activists are often detained without charges or otherwise harassed; some are killed. In 1984 rural organizations reported that at least 69 peasants died in confrontations with authorities or with gunmen apparently protected by local PRI-linked political bosses.

Such abuses have become more common as local PRI governments are challenged at the ballot box. The manipulation of election returns by government "alchemists," as they are sardonically called, has also become more blatant as voter discontent rises. (Mexican officials routinely decline invitations to serve as foreign election observers out of fear that someone might return the favor.) Even people in the government voice concern that, by relying on the Interior Ministry's political-cum-security apparatus, the de la Madrid administration could radicalize an essentially bourgeois opposition and dangerously polarize the political process.

De la Madrid is acutely conscious of the need to break with the PRI's immediate past. He entered office determined to uphold higher human rights and election standards. Last June the independent Committee for Disappeared Persons, Political Prisoners, and Exiles claimed that in the 12 years of Mexico's two previous governments 455 people had vanished, apparently after being detained. Under de la Madrid's administration, the committee reported, 40 people were inexplicably "detained or disappeared," but all except five were subsequently freed or otherwise accounted for. Yet in recent months numerous political activists have been illegally detained, and some have been added to the committee's missing persons list.

Similarly, in de la Madrid's first year in office, local elections were held under conditions that leftist and rightist politicians agree were perhaps the fairest ever in Mexico. The result was a devastating series of PRI defeats. Since then, the PRI has defrauded the opposition of victories in such major cities as Mexicali, Puebla, and Mazatlán. Piedras Negras was only the latest example of this regression.

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By raising and then dashing expectations, de la Madrid could finish his term presiding over a political system even weaker than the wounded corpus he inherited.

De la Madrid's most publicized attempt to distinguish himself from his predecessors—a "moral renewal" anti-corruption campaign—illustrated his dilemma. For the first time Mexico has adopted statutes banning nepotism and codifying conflict of interest rules. To dramatize its cleanup, the de la Madrid administration is prosecuting Arturo "El Negro" Durazo, the former corrupt Mexico City police chief and childhood friend of Lopez Portillo. But this ritual sacrifice may have backfired.

Durazo, a swarthy bulb-nosed barrel of a man, is now jailed in Los Angeles at Mexico's request, fighting extradition on assorted charges of embezzlement and illegal arms possession. Durazo was appointed in 1976 and amassed a fortune from kickback schemes and police extortion rackets. Using police slave labor and stolen land, he built two ostentatious palaces, one outside Mexico City and the other brazenly dominating the modest skyline of the Pacific beach resort of Zihuatenejo. A smaller Durazo retreat was constructed in a remote mountain locale inaccessible by road; party guests were ferried in by helicopter. The hideaways were decorated in the Late Hellenic Bordello style and appointed with such essentials as bull rings and replicas of Studio 54.

Perhaps because his flamboyance and indiscretion were atypical of the ruling elite, Durazo has emerged as a kind of folk antihero. Tales of his thuggery and graft titillate the public and seem to confirm everyone's worst suspicions about Mexico's leadership. A sensational but reputedly accurate account of Durazo's exploits, *Lo Negro del Negro Durazo* ("What Was Black About 'Black' Durazo"), written by a former associate, quickly became Mexico's biggest publishing success in years. The book has spawned a series of comic books recounting true episodes of Durazo's tenure along with his various sexual exploits. Mexican moviemakers are now finishing a film version that is expected to be a box-office smash.

However, instead of dramatizing the difference between the Lopez Portillo and de la Madrid regimes, the lurid details of the Durazo story may well have simply further damaged the PRI. Voters seem more conscious of the continuity of the PRI's governments, and less so of contrasts in presidential personalities. This is discomfiting to de la Madrid's political staff.

IF MORAL renewal is dangerous and clean elections risky, another option available to de la Madrid is democratization within the federal government. Consider the Mexican Congress: though a good forum for thrashing out PRI disputes and a useful platform for opposition spokesmen, it is still a rubber-stamp legislature. The executive's will is never defied. At best, assuming an unprecedented outpouring of antigovernment sentiment and a pristine vote count, the PAN this year might win 40 or 50 of the 300 Chamber seats that are decided by majority vote. Two years ago the PAN captured just one seat through a majority win. (The other 100 deputies are chosen by proportional representation from the ranks of "minority" candidates backed by parties failing to win a majority-vote seat.) In the unlikely though not implausible event that the PAN gains as many as half of those seats, plus an unheard of 50 majority-vote seats, it would succeed only in whittling the PRI's working majority from its present 299 to a still solid 250. So the PAN is really just pleading for admission into the president's governing coalition. Granting more real power to Congress would seem, therefore, to be an attractive alternative way to revitalize Mexican democracy.

Such a transformation would be impossible, however, unless paralleled by the democratization of the PRI. De la Madrid has taken some tentative first steps in that direction, but party candidates for critical posts like congressional seats and governorships are still chosen by *dedazo*—literally, the "fingering" of nominees by a cabal of top party leaders, chief among them the president. The Mexican president is probably the only leader of a major nation with the traditional right to anoint his successor. This "dedocracy," as critics have dubbed it, has made both party and government appendages of an aloof, near-monarchical executive.

Tulio Hernandez, the governor of tiny Tlaxcala state, last month offered a frank account of his own experience with Mexican dedocracy. "I was made a candidate, it must be said, by a *dedazo*," Hernandez said. "Did the people of Tlaxcala elect me? Was I the fairest leader of them all? No, it's not true. . . . [Party leaders] got together and said, well this one is the best, and what do you know! In 24 hours you are the top, *'lo maximo.'* That is the marvelous thing about the PRI—they can make someone popular, even handsome, in just 24 hours!"

The Mexico City governing elite, like most foreign diplomats and academics, tends to compare Mexico with Latin America; seen through that lens, the PRI looks pretty good. But voters in the north and in the more affluent neighborhoods of Mexico City are increasingly judging Mexican democracy by U.S. standards. "People look across the border and they see spectacular public works, they see presidents defeated in elections, and they wonder why we can't have all that here," says one PAN leader.

The PAN is now building a classic two-party system. By courting people with a nonideological desire for more honest and efficient local government, the PAN is attracting support from provincial urban voters akin to that received by the Italian Communists in the sixties. Some analysts argue that the PAN's ascendancy offers the PRI a historic chance to transform itself into a modern social democratic party. "They could say good-bye to the middle class, to the businessmen, and concentrate on their support in labor," says Enrique Krauze. Such a realignment could force the independent left into a tactical alliance with the PRI, arrayed together against the PAN's antistatist, churchgoing minority. But the PRI has evinced no interest in relinquishing its political monopoly. Its unofficial slogan is still *"de todas, todas"*—the PRI plans to win "all of all of them." Dedocracy reigns. □

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IN Mexico

APR 24 1986 p. A25, A27

Ex-President of Mexico Denies Corruption Charges

By Edward Cody
Washington Post Foreign Service

MEXICO CITY, April 23—Former president Jose Lopez Portillo, directly defending himself before the Mexican public for the first time, declared today that reports linking him to pervasive corruption under his administration are "lies and calumny."

Lopez Portillo, who was replaced by President Miguel de la Madrid in December 1982, spoke out after President Jose Azcona of Honduras was quoted in a newspaper interview here as saying the former Mexican leader "took off with money" and "banked $100 million or $1 billion" during his six-year tenure.

"Mr. Azcona, you are defaming me by daring to repeat lightly (and this is the softest way to characterize what you said) lies and calumny," Lopez Portillo said in a letter published on the front page of Mexico City's Excelsior newspaper, which also published the Azcona interview.

"Either you are poorly informed or you are lying. In both cases, you are defaming me," the letter closed. "And this is not worthy of an upright man, much less a president."

Azcona was interviewed by Excelsior as part of a series of articles on Central American leaders, and his comments about Lopez Portillo reflected only a small part of a broad range of issues that he touched on, including the presence of anti-Sandinista Nicaraguan rebels in country.

Lopez Portillo previously had kept a low profile since leaving office, spending much of his time in Europe, aloof from the charges of corruption leveled against his administration. Jose Diaz Redondo, spokesman of the ruling Institutional Revolutionary Party, said today's letter marked the former president's first public attempt to refute such accusations.

Lopez Portillo's silence until now was in keeping with Mexican political tradition, which decrees discretion from former presidents. It seemed particularly appropriate in view of corruption charges brought by the new government against some of Lopez Portillo's closest associates and political allies.

The Mexico City police chief under Lopez Portillo, Arturo Durazo, was extradited from the

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MEXICO, From A25

United States last month on charges of extortion and illegally stockpiling weapons. He has been jailed here pending a trial. The Mexico Federal District prosecutor, Renato Sales Gasque, announced last week that de la Madrid's government also has begun an investigation into Durazo's possible links to other crimes.

Durazo, a childhood friend and longtime associate of Lopez Portillo, became famous in Mexico for his displays of wealth and power during the former administration. While in office, he built a palatial residence outside the capital, boasting stables, a dog track and a vintage automobile collection.

After Lopez Portillo left office, Durazo fled Mexico. U.S. authorities arrested him in San Juan, Puerto Rico, in October 1984 on a Mexican warrant and, after a court battle, handed him over to Mexican authorities last month.

De la Madrid's government, which came to office on a promise to fight official corruption and promote "moral renovation" in Mexican public life, opened the Durazo mansion for a while as a "museum of corruption." Thousands of ordinary Mexicans filed through and got a taste of the luxurious lifestyle they had heard about in rumors.

Another close friend of Lopez Portillo, Jorge Diaz Serrano, has been jailed on charges of involvement in a $34 million fraud as head of Mexico's national oil company, Pemex. At least three other government officials have been charged with fraud during Lopez Portillo's administration.

Lopez Portillo has been charged with no crimes himself and travels in and out of Mexico regularly. But his close association with those charged and the swift accumulation of wealth by Lopez Portillo and officials in his government have generated widespread reports among Mexicans and diplomats here that the former president profited from the conduct of his subordinates, as charged by Azcona.

Since de la Madrid took office, these reports have been widely discussed in the Mexican press and political circles, particularly in light of the government's emphasis on battling the longstanding problem of corruption.

Lopez Portillo, in the letter, suggested these reports were started by political enemies and "agents of slander and destabilization."

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CHRISTIAN SCIENCE MONITOR
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APR 2 3 1986

Mexico's 'moral renovation' plan fizzles

By T. Elaine Carey
Special to The Christian Science Monitor

Mexico City

Mexico's "great moral renovation campaign has fizzled."

This view, expressed by Prof. Fernando Estrada of the National Autonomous University of Mexico, sums up the judgment of many other academics, political scientists, and politicians here.

When President Miguel de la Madrid took office in 1982, one of his main objectives was what he called "moral renovation," or cleaning up the widely acknowledged corruption that exists at virtually all levels of government. His promise inspired hope among many Mexicans who had lost confidence in the management of their country.

- The country was bankrupt — a situation many Mexicans attributed to government mismanagement.
- Allegations of unprecedented pilfering of public coffers by the previous administration of José López Portillo were becoming public knowledge.

But four years down the road, Mexicans seem to have lost their earlier optimism and find it all too easy to cite both old and new cases of corruption. Many Mexicans think that either the President was not serious about reform or that he simply was unable to change the system.

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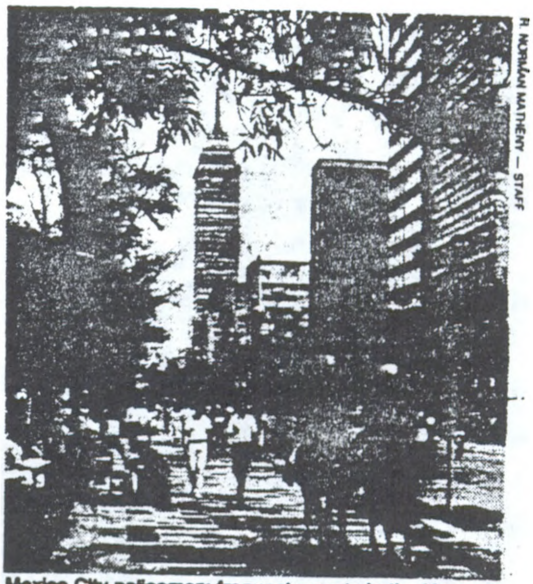

R. MORÁN MARTINEZ — STAFF

Mexico City policemen: frequent reports in the Mexican press accuse police of involvement in drug trafficking.

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MEXICO from page 7

"It is hard to believe that de la Madrid is going to end corruption in this country. It is very deeply rooted," says a highly placed official who is close to the President. "But whatever advances he makes will be important, because his successor will build on these," he adds.

President de la Madrid has done quite a bit by tightening control over officials handling government money. Thanks to him, this official says, government auditors may now arrive unannounced to check any department's books.

But the official admits that Mr. de la Madrid's attempts to clean up Mexico's powerful oil workers union have been only partially successful. When the President forbade reselling government contracts to third parties — cutting out the commissions that union leaders were accustomed to collecting — and when it looked as though he would investigate other fraudulent activities, the unions made it clear that they would strike. This would have stopped the oil exports that bring desperately needed dollars — a risk de la Madrid could ill afford to take.

There are many allegations of corruption under previous administrations and new ones leveled at the current administration that have not been cleared up. Mexican and American engineers, as well as diplomats, say that many of the architects chosen by the government to calculate repairs to buildings after last September's devastating earthquakes are incompetent. They charge that many of the contractors were put on the list in order to share the profits of reconstruction.

There are weekly reports in the press that policemen are involved in such activities as drug trafficking, kidnapping, and robberies. The former police chief of Mexico City was recently charged by the government with extortion, tax evasion, and illegal weapons possession.

Many Mexicans believed that de la Madrid might be able to deal effectively with the corruption because he had not come up through the ranks of the ruling Institutional Revolutionary Party (PRI) in the traditional way as a politician. Instead he was known as an administrator and technocrat. The fact that he was not closely tied to the elite politicos led people to believe he could bring about change.

The most striking case clouding de la Madrid's "moral renovation" is that of former President López Portillo. There have been widespread accusations that he enriched himself by taking millions of dollars from the public treasury during his tenure from 1976 to 1982. Many Mexicans are quick to say that if de la Madrid is not willing to press charges against López Portillo, people in lower echelons may think that they, too, can continue with business as usual. The President, citing lack of evidence, has resisted demands that he take legal action.

But many citizens who complain daily about traffic police demanding bribes or incompetent people buying government jobs also admit that they themselves are guilty of perpetuating the problem.

SVEN SIMON

De la Madrid: not a traditional politico

"We think it is easier to pay the bribe than to go through official channels and pay the fine for double parking or whatever," says anthropologist Carmen Macias. Luis Herrera, a manager for a government-run store selling subsidized food and clothing, agrees. "The laws are well-made. The problem is the people."

Why don't the same people who constantly mutter about corruption tackle the problem seriously? They fear that to conquer it would mean a drastic change in the one-party political system that has prevailed since 1928. The Institutional Revolutionary Party has built up and used, over the years, a system of patronage and bribery to maintain popular support, several observers say.

"I don't believe Mexico is ready for political change right now," Mr. Herrera says.

Many older Mexicans remember the terrible violence during the 1910 Mexican revolution. Younger Mexicans have been taught through the education system that it was a terrible time for the country. Consequently, many believe that rapid change is to be avoided.

When asked if the PRI was losing control and if public unrest due to corruption and economic problems would boil over, one of President de la Madrid's aides replied: "People have been predicting a social explosion here for years. It is not going to happen."

Mr. Herrara's remarks appear to confirm this view.

"Everybody is looking at the short term, comparing us to countries and systems that are far different and far more developed," he says. "I think the only solution is for us young people to make up our minds about what we want, the changes we want to see, and when we have children, teach them this. This is definitely a slow, slow process. We are talking about long-term changes."

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The Economist (London), February 8, 1986, p. 38

PRI-determined

FROM OUR MEXICO CORRESPONDENT *CIUDAD JUAREZ*

Mexico's governing party faces challenges for 13 of the country's 31 governorships this year. This puts more strain on a political system already groaning under popular discontent and an economic crisis that gets worse with every cent's drop in the world price of oil. The oil crash is worsening a recession that has already lowered real wages below their level of a decade ago. Halfway through its mandate, Mr Miguel de la Madrid's government is considered ineffectual. Anti-government candidates ought to have an historic opportunity in 1986; yet government officials say "conditions aren't right" this year for the opposition to win even one governor's seat.

Conditions weren't right last year either. In the northern border states of Sonora and Nuevo Leon, the ruling Institutional Revolutionary party (PRI) resorted to flagrant ballot-stuffing, tampering with voter lists and violent intimidation to notch up three-to-one victory margins. The party's victim in both states was the conservative National Action party (PAN), which has managed since the 1982 foreign debt debacle to mount a serious challenge in much of the north.

In its 57 years of existence, the PRI has never been defeated in a national or state election. The ruling party controls every federal senate seat, every governor's office, and all but a handful of city halls. But Chihuahua, Mexico's biggest state, this year just might be the first to install an opposition governor. In relatively honest elections last year, the PAN won four of the state's ten congressional districts; the state's governor was promptly fired. The party's standard-bearer in the vote next July 6th, who was chosen in a lively nominating convention late last month, is Mr Francisco Barrio, the 34-year-old mayor of Ciudad Juarez.

The city, a dusty but dynamic border sprawl across the river from El Paso, Texas, contains almost half of Chihuahua's 2.1m people. It is the biggest municipality ever ruled by Mexico's opposition. The city's political independence is partly a result of its successful export-assembly industry; unlike most private Mexican businesses, this depends on sales not to the government but to the United States. Another thriving group of Chihuahua exporters—narcotics traffickers protected by some local policemen and politicians—has given Mr Barrio a new campaign issue to exploit.

Alienation from Mexico City's ruling class has intensified all along the border since the imposition of strict import and currency controls in 1982. These restrictions on dollar trading made frontier zone residents "feel like criminals", a state campaign official for the ruling party privately complained last week. Yet border frustrations do not fully explain Mr Barrio's appeal. A fervent "charismatic" Catholic who claims divine guidance and protests against government policies with periodic hunger strikes, Mr Barrio is an unusual political figure in officially secular Mexico.

The PRI candidate, Mr Fernando Baeza, a former mayor and governor's aide, is well established in local politics. The ruling party is the conduit for government loans and contracts, and uses them to keep the economically powerful from straying. Last November, the head of Monterrey's Vitro company, a large and well-run corporation, was dismissed. He had been a vocal supporter of PAN. In a meeting with Monterrey corporate leaders shortly before the dismissal, President de la Madrid had asked that they and their executives refrain from supporting opposition policies.

Opposition strategists seem resigned to overt vote-rigging. For many, an election campaign is seen as an effective way of protesting rather than a realistic route to office. A Mexican official recently claimed that the opposition would be allowed to win in a small state in the interior, but "never" in one like Chihuahua with wealth, land and, most important, a long border with the United States. "Strategic" considerations favour fraud in the Chihuahua election.

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Baltimore Sun, January 12, 1986, p. A2

Mexico's hard times continuing after failure to meet economic goals for '85

By James Bock
Mexico City Bureau of The Sun

MEXICO CITY — A New Year's joke making the rounds here says 1986 will be an average year for Mexico — worse than 1985 but better than 1987.

And when Fidel Velasquez, Mexico's 85-year-old labor czar, was asked about belt-tightening this year, he replied with an uncharacteristic smile: "That's for those who still have belts."

Mexico enters its fourth consecutive year of austerity with only modest hopes for economic improvement. One cabinet minister echoes another in saying that 1986 will be "a difficult year."

Perhaps the worst news is confirmation of the government's dismal failure to meet its 1985 economic targets.

The Bank of Mexico reported last week that the inflation rate in 1985 was 63.7 percent. That rate topped 1984 inflation of 59.2 percent and was nearly double the original 1985 target of 35 percent.

The chief culprit in the unabated inflation, government deficit spending, accounted for 9.6 percent of gross domestic product last year — far above the government's 5.1 percent target.

These figures signal the need for Mexico to redouble austerity efforts in 1986, economists say. The government has put together a budget that would sharply cut spending in real terms, bring inflation down to about 45 percent and hold deficit spending to 4.9 percent of GDP.

But the budget, in the view of most independent economists, is also likely to provoke a mild recession — if the bureaucracy adheres to it.

Either way, the economic fallout would be unpleasant — recession in a country where workers don't have belts to tighten, or a government failure to meet key targets for the third year in a row.

Workers have lost 40 percent of their purchasing power in 3½ years of the crisis, economists estimate. The newly increased minimum wage still comes to only $3.70 a day.

The labor representative on the National Minimum Wage Commission complained last week that the 32 percent wage increase had already been wiped out by gasoline, milk, bread and tortilla price rises — and the wage increase was granted only two weeks ago.

One bright spot in the new year appeared to be the strengthening of the peso against the U.S. dollar on the free exchange market. After plunging to 500 to the dollar in early November, the peso staged a comeback and by early last week had gained nearly 20 percent on the U.S. currency.

The president of the Mexican Banking Association declared that the strengthening peso showed "exchange rate nervousness has ended" — and on the same day the peso took a precipitous dive of 30 points.

Another positive trend has been the decline in international interest rates, which saved Mexico about $2 billion in payments last year on its $96 billion debt. But that saving was partly offset by dropping oil prices and a 12 percent decrease in overall exports.

New Year's jitters about the economy are widespread.

Against the backdrop of falling petroleum prices, the head of Mexico's oil workers union publicly warned President Miguel de la Madrid last week that "if PEMEX [the national oil monopoly] goes under, you will go under and the country will go under."

In a recent survey of Mexico City industrialists, more than half cited "uncertainty about the economic situation" as the principal factor blocking their growth plans — more than in the prime crisis years of 1982 and 1983.

And a Mexico City cab driver, reflecting the general malaise, moaned: "Why don't they just let us bottom out so that we could begin working our way up again?"

The prospect of more dissatisfaction with the economy comes in a year in which a dozen state governorships are up for grabs, including a particularly difficult challenge to the ruling Institutional Revolutionary Party (PRI) in the northern state of Chihuahua.

The political opposition accused the PRI of resorting to fraud to win two northern state elections last summer, even after the government had loosened the reins on spending in late 1984 and early 1985. If austerity is strictly enforced this year, the PRI's job could be more difficult, analysts say.

President de la Madrid, coming off a cordial but uneventful Jan. 3 meeting with President Reagan, has found no attractive way to package another "difficult year." He makes few promises and offers no hope of

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Wall Street Journal
October 9, 1985
p. 26

Former Chief of Pemex Sits in Prison, But Is He a Thief or Just a Scapegoat?

By Youssef M. Ibrahim
Staff Reporter of The Wall Street Journal

MEXICO CITY—At age 64, Jorge Diaz Serrano looks marvelous.

Silver-haired, slim and suntanned, the man who turned Mexico into a world-class oil power strolls into his prison's cafeteria with the bounce of an athlete. His smile exudes wit and sarcasm; the aristocracy of his manner eclipses the reality of his incarceration. He might well be a man of leisure arriving at the country club.

He feels good, too. He plays tennis and jogs every morning, teaches fellow inmates English and French every afternoon and learns to use an IBM personal computer at night.

"When I came here, only three inmates played tennis. Now we have a hundred," he brags. "It's good to stay busy."

Mr. Diaz Serrano is the most celebrated catch in Mexico's so-called moral renovation, which President Miguel de la Madrid began three years ago after succeeding Jose Lopez Portillo—a president whose administration was regarded as grossly corrupt, even by Mexican standards.

Mr. Diaz Serrano

Since July 1983, Mr. Diaz Serrano has awaited the outcome of his case here in the Reclusorio Sur, a penitentiary nestled in green mountains on the southern edge of Mexico City. The government says he embezzled $34 million from Pemex, the government-owned oil company that he headed from 1976 to 1981; he says he is a scapegoat. A judgment on this charge is expected in December.

During Mr. Diaz Serrano's tenure, in any event, petroleum became the primary engine for Mexico's economy and the collateral for its huge borrowings. When he took over, Pemex was producing less than 800,000 barrels of oil a day and had oil and gas reserves under seven billion barrels. By the time he was forced to resign, production had ballooned to some 2.5 million barrels a day and reserves to 72 billion barrels.

Asked about charges that he allowed rampant corruption among the huge Pemex staff in order to facilitate production, Mr. Diaz Serrano takes a deep breath, rearranges the cups and saucers on the table, and says:

"Look. During my term in Pemex, I bought $23 billion worth of equipment and sold $45 billion worth of oil, and they cannot find one cent more than I made before I took the job."

Whether or not he is guilty, many Mexicans agree that Mr. Diaz Serrano really is in prison as a stand-in for many others in the Lopez Portillo administration, including the former president himself. Mr. Lopez Portillo was once a hero but now is reviled for the wealth that he is generally assumed to have accumulated in office. He didn't help his image by building a fabulously lavish mansion.

"He [Mr. Diaz Serrano] should have had plenty of company," is the way one taxi driver puts it.

People in the know, however, believe that Mr. Diaz Serrano's biggest mistake was an all-too-apparent political ambition and a lack of skill in pursuing it.

"His real sin—maybe his only sin—is that he wanted to become president . . . but he wasn't a professional politician, and he stepped over too many toes," says Gustavo Rodriguez Elizaras, the president of Greca, an oil consulting firm.

As Mr. Diaz Serrano puts it: "Look. I was already rich, and I wanted to be president. Why would I steal $34 million?"

While insisting that he is a scapegoat, he won't say for whom. "When bitterness was distributed, I didn't get any," he says, explaining that he still considers President de la Madrid—upon whose orders he is in jail—among his best friends. Mr. Lopez Portillo also ranks high as a friend, he says.

Then he tells a joke about a dying man. A priest asks the man whether he has made peace with God. Yes the man says. Has he renounced the devil, too? the priest asks.

"Father," the man responds, "in my position, I can't afford to antagonize anybody."

Actually, for a man in Mr. Diaz Serrano's position, he admits, "it could be worse." As jails go, this one isn't bad at all. A modern concrete and glass structure, it has a theater, two tennis courts, a soccer field, and a playground for visiting children. Unrestricted conjugal and family visits are permitted three days a week and holidays. And the former V.I.P. is on the top of prison society.

When he enters the cafeteria, the staff rushes over to take orders. When a holiday band intrudes on his conversation, he whispers to his lawyer, who stops the performance with a word to an inmate. And most Mexicans believe that if he remains discreet, he will be released within a year or two.

Mr. Diaz Serrano's predicament is in many ways a curious manifestation of Mexico's political system, which delicately balances the interests of the ruling party establishment with those of the country and of powerful individuals. Somehow, he fell through the cracks, and he seems to accept his fate.

"To understand Mexico," says Mr. Diaz Serrano, who holds master's degrees in both philosophy and history, "you must accept that this is a surrealistic country, with a surrealistic policy." He continues: "You cannot look at corruption in isolation of the culture, . . . There are people who are good because they never had the opportunity to be bad. Here, you can't dictate morality."

Then he notes that the man serving the tea and coffee is a former waiter jailed for poisoning 25 people.

"They gave him a small tip," he says. "He got angry."

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4 Latin American Studies Association
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Mexico's 1985 Midterm Elections: A Preliminary Assessment

by

Delal Baer and **John Bailey**, Georgetown University

The elections of July 7, 1985, produced some surprises, largely because expectations had been created for both a strengthened opposition and more honest procedures. In balloting marked by high abstention, the Institutional Revolutionary party (PRI) overwhelmed its opposition due to the PRI's genuine electoral strength and impressive resources, but also in part by resorting to a style of fraud characteristic of the 1950s. The immediate casualty was the already fragile credibility of the president's "moral renovation of society," especially in the eyes of foreign observers. Also damaged by both fraud and abstention was the political reform of 1977, which had appeared to open new possibilities for change. This article, which focuses largely on the congressional elections, is a preliminary effort to assess why unfounded expectations had been created, to report the data available, and to consider some explanations and implications of the outcome.

Expectations: What Was at Stake?

On July 7, some 17.8 million Mexicans went to 52,931 polling places to choose 400 national deputies, 7 (of the 31) state governors, and 845 of the 2,378 municipal presidents. In the Mexican setting, elections have served more as a reaffirmation of longer-term and more abstract ends than as the instrumental expression of preferences about policies or candidates (Loaeza 1985b: 14). Congressional elections at the midpoint of the six-year presidential term (the *sexenio*) are perhaps even less important to the citizenry than presidential or municipal elections, in which the candidates are known and the implications comprehensible. Nevertheless, the midterm elections contribute to the president's consolidation of power and mark the opening of the succession process (which, if the present *sexenio* observes custom, should produce the party's candidate in the last quarter of 1987). The elections of 1985, however, were assigned special importance by both Mexican and foreign observers, who expected to see a stronger opposition showing, especially in the northern states of Nuevo León and Sonora, and who were led to believe that the PRI government would observe correct procedures.[1]

One reason for heightened expectation of opposition strength is that Mexico is in the throes of its worst economic crisis since the Depression. Even though the economy grew rapidly in the last quarter of 1984 and the first quarter of 1985, due largely to hectic pump-priming by the government, inflation has soared for the past four years (prompting a series of devaluations), while workers' incomes have plummeted. It thus seemed plausible that disgruntled Mexicans would register their unhappiness at the ballot box, and that the PRI government would allow opposition victories to stand as an escape valve.

Part of this reasoning was based on the experience of the local elections of the summer of 1983, when opposition parties won seven important cities, including five state capitals. The wave of victories was brought to a halt in the State of Baja California Norte, where the PRI government won the governorship, thus preserving its monopoly of governorships since 1929.

Also, President Miguel de la Madrid had placed great emphasis on the moral renovation of society as the keystone of his *sexenio*. While not much had been accomplished on this front, many were willing to suspend disbelief and entertain the possibility that the president's reiterated assurances of honest elections (which in themselves implied previous electoral fraud) should not be dismissed out of hand.

Added to this was the electoral violence in two cities of the state of Coahuila in December 1984-January 1985, in which disgruntled militants of the opposition National Action party (PAN) took to the streets to protest fraudulent elections. An inference drawn by some was that the PRI government would prefer some electoral losses to the prospect of further violence, especially along the border, where U.S. media coverage might prove embarrassing.

Beyond this, the PRI itself had emitted confusing signals in the form of a survey leaked in March, 1985, which showed that the party expected significant opposition in some 107 (of 300) electoral districts, largely in the north, but also in the Federal District, Jalisco, and other interior states. The PAN leadership's claim that its party would win 176 seats if honest elections were held exceeded even the usual sort of campaign fantasizing, but its more conservative estimate of victory in 30-odd races seemed plausible.

Juan Molinar (1985: 24) put perhaps most trenchantly what really was at stake in the July elections. Since 1929 the PRI has operated as a hegemonic party, utilizing elections as referenda on the legitimacy of the Revolution

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and conceding posts to the opposition based more on a calculus of what was needed to preserve a degree of democratic legitimacy than on what opposition parties actually won at the polls. The PRI government could act accordingly, given its impressive record of growth and stability. With the economic crisis, however, the PRI no longer could legitimate itself through material progress; thus, democratic opening might provide another avenue of legitimation. Given its undeniable strength, the PRI government might eschew electoral "alchemy" and begin the transition from a hegemonic party system to a dominant party system, one in which opposition strength is recognized, but with the dominant party retaining control.

Events showed, however, that austerity translated into electoral discontent less than some predicted, as Loaeza (1985a) has noted. While the 1983 elections showed opposition strength in the north, the PRI's resolute stand in Baja California and in subsequent local elections in 1984-1985 was probably the more important lesson to be drawn. Clearly, moral renovation does not extend to elections, and the better predictor of government behavior was the hard-line speeches by PRI president Adolfo Lugo Verduzco, who reiterated that the PRI is the party of the majorities and that Mexico would not be misled by exotic notions of democracy imported from abroad. Rather than knuckling under to threats of violence, as in the case of Coahuila, the PRI leadership perhaps decided on a course of firmness. The confusing signals from the PRI might be explained by the need to motivate its candidates to wage effective campaigns. And most importantly, the PRI government opted to preserve its hegemonic rule, as will be shown in the electoral results.

The difficulty in analyzing electoral results in Mexico is that one is far from sure about what actually happened. The opposition begins to charge fraud long before election day (often with some justification), and the government counters with charges that the opposition is merely attempting to mask its weakness and deliberately delegitimates the system in the process (which also has some basis in fact). In the July elections, one of the surprises was the rather crude style of fraud perpetrated especially in the states of Sonora and Nuevo León, but to a lesser degree in a few other sites as well.

Mexico utilizes a mixed system for the national Chamber of Deputies, with 300 deputies elected on a plurality basis from single-member districts and another 100 deputies chosen on a proportional representation basis in five at-large multistate electoral districts. In practice this means that voters deposit two ballots, one for the single-member district candidate and another indicating party preference in the at-large district. Electoral law stipulates that a party winning more than 60 plurality districts loses its eligibility for the at-large seats. Since the PRI usually wins the great majority of the single-member districts, the law effectively reserves the 100 at-large seats for opposition parties. Table 1 reports results for the 300 deputies from the single-member districts in the 31 states and the Federal District.

Beginning with the recent historical trends, three points are significant: first, the PRI shows a fairly continual decline in support, from the 80-90 percent range in 1961-70 to the mid-60 percent range by 1982-85; second, electoral

Table 1. Mexico: National Percentages of Vote by Party for the Chamber of Deputies, 1961-1985 (Single-Member Districts). †

	PAN	PRI	PPS	PARM	POM	PSUM	PST	PRT	PMT	ANNULLED	ABSTENTION
1961	7.6	90.2	1.0	.5							31.7
1964	11.5	86.3	1.4	.7							33.4
1967	12.4	83.3	2.8	1.3							37.7
1970	13.9	80.1	1.4	.8						3.9	35.8
1973	14.7	69.7	3.6	1.9						10.0	39.7
1976	8.5	80.1	3.0	2.5						5.7	38.0
1979	10.8	69.7	2.6	1.8	2.1	4.9	2.7			5.9	50.7
1982	17.5	69.3	1.9	1.4	2.2	4.4	1.8	1.3		.04	34.3
1985	15.5	65.0	2.0	1.7	2.7	3.2	2.5	1.3	1.5	4.6	49.5

† Excludes the PNM, which won .28 percent of the vote in 1961 and the PSD, which won .19 percent in 1962.

Sources: ***Reforma política, gaceta informativa de la Comisión Federal Electoral, Tomo IX: acuerdos, indicadores de opinión pública y estadística electoral*** (México, D.F.: 1982), pp. 128-129; ***El Universal***, July 17, 1985. 6A.

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abstention shows increases from the mid-30 percent range during 1961-70 to the high-40 percent range for the midterm elections of 1979 and 1985; third, the PRI-government has maintained its hegemonic status by structuring its own opposition, a point developed below. Taken together, the trends would seem to support an interpretation that the electoral arrangements introduced by the 1977 political reform are signaling stress and erosion of support for the system.

In response to this erosion, the PRI government, acting in hegemonic fashion, rewarded its allies and weakened its real opposition. For practical support in the Congress and in the Federal Electoral Commission (the dependency of the Interior Secretariat that rules on electoral matters), the PRI can rely on the Partido Auténtico de la Revolución Mexicana (PARM), the Partido Popular Socialista (PPS), and the Partido Socialista de los Trabajadores (PST). Its real opposition, on the Right, consists of PAN and the Partido Demócrata Mexicano (PDM), and, on the Left, of the Partido Socialista Unificado Mexicano (PSUM), and the Partido Revolucionario de los Trabajadores (PMT).[2]

If we reconsider table 1 in terms of these blocs, the apparent pattern is to preserve the dominant position of the PRI, to strengthen its allies (which collectively increased their vote by 1.1 percent), and to weaken the leading parties of both Right and Left, PAN and PSUM, which suffered losses of 2 percent and 1.2 percent, respectively.

Interesting ideological trends are discernible also in the single-member district results (and are reinforced in the at-large vote as well). Conservative parties (PAN and PDM) experienced an overall decline of 1.5 percent, while the Left (PSUM, PST, PPS, PRT, PMT) emerged with an increase of 1.1 percent. This pattern might be attributable to an interest in halting the advance of the Right, which is viewed as anathema in some official circles, and along with it any possible development of a two-party dynamic in the electoral system.

The thesis of structuring the opposition becomes even more apparent when the at-large results, as shown in table 2, are analyzed in terms of the PRI and its allies versus the real opposition. Prior to the elections, leaders of the major PRI-controlled teachers' and oil workers' unions allegedly instructed their members to vote for the PRI with the single-member district ballot and for the PST on the at-large slate. This quite rational voting logic was probably encouraged on a wider basis and appears as a pattern in the at-large results.

In table 2, subcolumn A shows the percentage won by each party within the at-large district; and subcolumn B shows the percentage difference between the vote received in the at-large race and the single-member district race. For example, in column 2, subcolumn A shows that the PST received 4.4 percent of the at-large vote; subcolumn B shows that this is 104.4 points above the PST vote in the

Table 2. Mexico: Percentage of Vote by Party in At-Large District Compared with Vote Received in Single-Member Districts, 1985 Congressional Elections.

	DISTRICT											
	1		2		3		4		5		Total	
Party	A	B	A	B	A	B	A	B	A	B	A	B
PAN	20.9	+2.2	19.1	+4.8	10.1	+0.7	21.4	+1.3	12.9	+5.2	16.7	
PRI	54.0	-0.5	65.1	-9.2	73.9	-5.7	63.7	-3.2	66.8	-3.3	64.8	
PPS	2.9	+21.6	1.7	+126.0	3.0	+15.4	1.7	+22.5	3.6	+16.5	2.6	
PDM	3.3	+6.3	4.4	+3.8	1.5	+13.5	3.3	-.04	2.7	+1.8	3.0	
PSVM	6.2	+4.5	1.5	+12.6	2.3	+6.5	3.3	+3.4	4.2	+0.6	3.6	
PST	3.6	+18.7	4.4	+104.4	3.7	+25.5	2.3	+24.9	3.3	+24.5	3.5	
PRT	3.0	+14.0	1.5	+169.1	1.0	+71.8	.6	+12.0	2.0	+5.2	1.7	
PARM	2.0	+28.2	2.0	+182.0	4.0	+23.4	9.6	+41.8	2.5	+37.6	2.5	
PMT	4.0	+5.7	.3	+21.8	.5	+11.7	1.8	+4.3	1.9	+5.3	1.7	

A=Percentage vote in at-large district
B=Percentage variation of at-large vote in comparison with single-member district vote in same geographical region

Source: COPARMEX, "Las elecciones de la crisis (quinta y última parte)." (México, D.F.: n.d.), pp. 18-19.

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single-member district races in the same geographic area. The overall pattern here is for the PRI to receive fewer votes in the at-large races and for opposition parties to receive more. Within this pattern, the PRI's allies (PPS, PARM, PST) tend to do better on the average (about a 25 percent gain per party) than do its foes (about 7.5 percent).

A reasonable hypothesis to account for this pattern is Molinar's suggestion (1985: 22) that the system punishes parties that entertain expectations for real electoral strength. This is probably more the case with the PAN, which had held out the possibility of winning a governorship in the north as well as a large number of deputy seats. The PSUM suffered internal fissures prior to the elections, destroying in the process the Left's hope for a unified front.

Finally, the overall thrust of the results was to reduce congressional representation of the stronger opposition parties by encouraging the proliferation and survival of micro-parties. Table 3 reports the vote results in terms of deputy seats won. We see here that opposition party victories in single-member districts rose from 1 in 1982 to 10 in 1985. With regard to the at-large races, however, critics had charged that the creation of 5 districts (in contrast to 4 in 1982 and 3 in 1979) penalized the larger parties, the PAN and PSUM, and rewarded the smaller ones. Each party (except the PRI) is entitled to one deputy in each of the five regional districts; that is, each party is automatically allotted 5 seats upon attaining its registration by winning a minimum of 1.5 percent of the vote nationwide. With eight parties achieving registration, 40 of the 100 seats allotted for proportional representation are distributed immediately, leaving fewer to reflect the relative weight of the stronger opposition parties. The critics' charges were borne out, with the PAN losing 18 seats and the PSUM 5 in relation to the 1982 tally, while the smaller parties gained 23 overall.

Quite apart from the numerical results is the question of fraud, a subject of particular fascination for a U.S. audience. There obviously is no way to measure electoral fraud with precision, but the Mexican and foreign press report an impressive array of techniques ranging from the semisophisticated (inflating the voter rolls by an estimated 10 percent, switching and counterfeiting vote packets from ballot boxes), to the crude (stuffing boxes with "tacos" of votes, stealing boxes at gunpoint).[3] The fraud seemed targeted primarily on Sonora and Nuevo León, but complaints were registered at several other sites as well. Since expectations had been created that the PRI would either have to concede victories or resort to fraud and then confront a violent reaction, the silence from Sonora (with the brief exception of San Luis Río Colorado) was

Table 3: Mexico: Party Composition of National Chamber of Deputies 1982, 1985 (as of September 12, 1985)†

	1982	1985	1982	1985
PAN	1	8*	50	32
PRI	299	290	--	--
PPS	--	--	10	11
PDM	--	--	12	12
PSUM	--	--	17	12
PST	--	--	11	12
PARM	--	2**	0	9
PMT	--	--	0	6
PRT	--	--	0	6
Total	300	300	100	100

† These results may be subject to modification, pending resolution of disputed cases.

* PAN won seats in Chihuahua (3), Durango (1), Estado de México (1), Guanajuato (1), Mechoacán (1), and Sonora (1).

** PARM won seats in Tamaulipas (2).

Sources: ***El Hispanoamericano***, 2256, August 6, 1985; ***El Universal***, July 22, 1985, p. 1 A; interview material.

puzzling. The more anguished outcry came from Nuevo León, where defeated Panista candidate Fernando Canales Clariond led as many as 40,000 in demonstrations to protest the election of Priista Jorge Treviño. More puzzling, at least to foreign press observers, is why the PRI resorted to fraud at all—much less of vintage 1952—given its apparent overwhelming strength as well as the unusual degree of foreign press coverage.

Explanations and Implications

If Molinar's hegemony thesis seems to account for the numerical results, a variety of contending explanation have been offered to explain the bare-knuckle style. An explanation that requires some careful qualification is that of the reformist president (sometimes given as reformist *tecnico*) losing out to a traditionalist PRI (bastion of the *politicos*).[4] Distinguishing usefully between *tecnicos* and *políticos* is difficult to begin with, and then drawing equivalencies to "reformist" and "traditionalist," respectively, is questionable. One of the president's closest collaborators, Senator Adolfo Lugo Verduzco (arguably a *tecnico*), heads up the PRI and exercises fairly effective control over the party. The explanation might be strengthened if one were to narrow the focus to the PRI's labor sector, which is hard-line indeed on matters of the political reform and the PAN.

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Another notion, attributed to Allen Riding (1984: 79-82) is that the *tecnicos* are faced with the need to fix elections in some cases but lack the skills to do it well. There may be something to this, but the PRI had dispatched two of its most able and experienced militants to act as general delegates in Sonora and Nuevo León. Other explanations involve "*grilla*," or varieties of maneuvering by individuals to make others look bad for one or another reason. This may be of some minor importance, but the patterns were evidently too widespread in the north for individual politicking to explain much.

A more plausible explanation is that the president and his advisers concluded that it was necessary to control the political situation in order to manage the severe economic crisis.[5] Reinforcing a political base in the PRI by acceding to the labor sector and local-level Priistas might better allow the president to implement difficult economic policies, such as austerity and trade liberalization.

Hypotheses consistent with this explanation are that the president might have been surprised by the PRI's setbacks in 1983 and faced the necessity to backtrack on the policy of honest elections. Also consistent is what might be termed the "domino" or "slippery slope" notion. As put by Jorge Castañeda (1985: 36), the PRI government could not allow the real opposition vote to stand in the north (or anywhere, for that matter), because such would transform the nature of elections from a ritual to the real choice of officials. Such a change would shatter the apathy that has grown over past decades, bring out large numbers of voters, and present the PRI government with a very difficult situation. Finally, orthodox organization theory might account for some of the PRI's behavior. That is, whatever the president's preferences for electoral propriety, local-level Priistas see their careers riding on their ability to turn out voters. Faced with uncertainty about real opposition strength, their efforts might have become a bit exuberant.

If the analysis and explanation have some basis, then some implications for economic recovery and political reform might be considered.[6]

Persistent capital flight and an absence of investor confidence are critical obstacles to Mexico's economic recovery. The postwar government-business alliance that produced rapid growth, but with structural deformities, was strained by Luis Echeverría's presidency (1970-76) and perhaps shattered by José López Portillo. The latter's nationalization of the banks in 1982 led many business executives to conclude that the political system offered weak institutional guarantees of property rights against the arbitrary use of state power. President De la Madrid has labored to reassure national and foreign investors, but so far without complete success. The accumulated strains in government-business relations played an important role in the 1985 elections.

The period since 1982 has been characterized by the private sector's search for guarantees of its interest within the Mexican political system.[7] Some private sector leaders appear to be pursuing a double, flexible strategy of continued electoral pressure while at the same time holding out for the possibility of better relations and pragmatic cooperation with a reformed PRI government. In this strategy, the ascension to PAN leadership of *neopanistas*, a group closely identified with business interests, has converted the party to some degree into an instrument in the business community's effort to renegotiate its relationship with the government. The electoral system is clearly a weak link in the PRI's armor, and business support for the PAN has been perceived in government circles as part of a strategy to pressure concessions (e.g., reducing the size of the public bureaucracy, cutting nonproductive state spending, reducing red tape).

The principal question raised by these developments is the extent to which the private sector is willing to push its breach with the PRI. Business "hard-liners" are convinced that the only way free enterprise can be preserved is through a democratization permitting opposition counterweights to the PRI. "Soft-liners" prefer not to challenge PRI dominance and tend to be less concerned about democracy than with re-creating a stable and profitable business environment. For them, the PAN is a useful tool with which to pry concessions from the PRI government.

The private sector's ambivalence about democracy intensifies a dilemma for the PRI *Priistas* complain privately that should they open the political system and accept losses, then some business interests would perceive this as a loss of control, and investor confidence might decline. On the other hand, when the PRI practices a "complete sweep" policy, other business interests complain about an authoritarian system that inhibits innovation and decentralization, and investor confidence suffers.

Should the PRI government offer sufficient guarantees of security and profits to business interests, then the "soft-liners" might prevail, leading to a wthdrawal of some business support for the PAN. Some point to the PRI's business-oriented nominees to the governorships of Sonora and Nuevo León as indicative of efforts to reassure the business community. The promises delivered by PRI candidate Félix Valdés to Sonoran business leaders shortly before the election played a role in weakening the PAN. In Nuevo León, however, the situation appears more complicated. On the day before the inauguration of Jorge Treviño as governor, the PAN held a protest rally that attracted some 40,000 persons. Conspicuously absent at

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the inauguration were important senior members of the local business community and representatives from the state chapters of national business interest associations. Yet the attendance by Bernardo Garza Sada from ALFA and Eugenio Garza Laguera of VISA are reminders that both conglomerates have been hard hit by the economic crisis and look forward to continued government assistance.

In all, if a government-business reconciliation emerges, the PAN's electoral push might lose steam in 1986-88. If the tensions persist and the business "hard-liners" prevail, continued electoral pressure can be expected. Gubernatorial and local elections in Chihuahua in 1986 will prove especially interesting.

The midterm elections represent an apparent setback for the process of political liberalization set in motion by the political reform of 1977. That reform had signaled a controlled opening of the system by facilitating the formation of new parties, restructuring Congress so as to guarantee minority party representation, providing opposition parties with access to the media and relaxing press controls. The reform was an essentially pragmatic move designed to preserve PRI dominion by stimulating limited political competition and directing real, sometimes violent opposition into institutional channels. Many were quite skeptical that the PRI government would allow real change, but by going beyond previous efforts the reform held out interesting possibilities. The July elections clearly signal that in the short term the reform will remain limited in scope and is unlikely to serve as a vehicle for a more meaningful opening. This does not mean, however, that reform is a closed subject, and another round of discussion in official circles is quite likely.

Official control over the elections debilitates the emerging party system by provoking internal divisions over what strategy to adopt in response. Within the PAN, for example, a large faction led by former presidential candidate Pablo Emilio Madero favors continued negotiation of electoral results with the government, a larger faction favors abstention from voting as a way to register protest, and a quite small splinter favors confrontation with the government.[8] Also, with official control, local opposition party leaders become more vulnerable to the temptation to disregard election results and to bargain with the authorities. More fundamentally, it becomes difficult to maintain viable political parties over the long term as both the electorate and party leaders begin to question the meaning and value of the electoral exercise.

Indeed, the political reform and apparent counterreform have intensified contradictions within the Mexican political system as a whole. On the one hand, the opening encouraged the formation and strengthening of opposition parties. On the other hand, the resulting increase in political competition has been met with a hardened official response. Meanwhile, increased press freedom permits greater public scrutiny of government electoral fraud.

The intensification of such contradictions is likely to be felt precisely among those sectors of the population which the PRI finds most difficult to control, i.e., intellectuals, entrepreneurs, and growing middle sector groups generally. One might speculate that although the events of July did not poduce an ***electoral*** watershed, they may have precipitated a ***perceptual*** watershed in public awareness of the gap between political myth and reality. This heightened awareness promises to grow more acute in the future, with further erosion of regime legitimacy a probable consequence.

Notes

1. PRI-government is not used in a critical sense here, but rather to remind readers that the party is an extension of the government and that the two institutions are quite closely integrated.

2. Useful general works on Mexican parties, elections and the political reform of 1977 include González Casanova (1982) and Rodríguez Araujo (1982).

3. In the Mexican press, see especially the stories in ***Proceso***, 454, July 15, p. 10-29; and 455, July 22, pp. 10-13; ***Norte***, July 6-11. In the U.S. press, see the coverage by, e.g., Richard Meislin, ***New York Times***, July 9, 16; Steve Frazier, ***Wall Street Journal***, July 12; William Orme, ***Washington Post***, July 8; Dennis Volman, ***Christian Science Monitor***, July 9; and Bruno López, ***Arizona Republic***, July 28. Robert J. McCartney, ***Washington Post***, July 11, p. A24, put it most bluntly: "Several reporters said that less respect was shown for laws and procedures in Sonora than in the elections they coverd in El Salvador and Nicaragua."

4. See ***Latin American Monitor***, 2:5 (July 1985), p. 181; and Wayne Cornelius and Arturo Alvarado, ***Los Angeles Times***, July 10.

5. The nationalistic and aggressive speeches by President De la Madrid (***Excelsior***, July 19, 1, 10A) and Adolfo Lugo Verduzco ***Excelsior***, July 19, pp. 4, 14A) support this view.

6. Due to space limitations, we cannot take up implications of the election for U.S.-Mexico relations or for regime persistence or transformation. These themes are discussed in Delal Baer, "Mexico's Midterm Elections: Report Number 4," Center for Strategic and International Studies, Latin American Election Series (forthcoming).

7. Given the pervasive involvement of government in creating and sustaining development, the term "private sector" is a bit of a misnomer. Also, the industrial-commercial-financial-agricultural community is large and heterogeneous, but we are forced to use government/private sector as a kind of shorthand to conserve space.

8. See Dennis Volman, the ***Christian Science Monitor***, August 12, 1985, p. 9.

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UNCLASSIFIED

International Political Matters

Central America

United States policy is to end the current conflict in Central America and support a peaceful settlement there. To this end the United States would welcome an agreement among the Central American states that would be comprehensive, verifiable and simultaneous. We believe that the Contadora process, leading to an agreement based on the 21 objectives set out in 1983, is the appropriate framework for such a settlement. Such an agreement would provide for democratic national reconciliation within Nicaragua, including such things as dialogue, a cease-fire, democratic elections and an effective amnesty. The United States is willing to do its part to cooperate in any such agreement.

The Sandinistas have demonstrated over the years that they have little interest in joining in such an agreement. Their intransigence during the April 5-6 Contadora meeting was further evidence of their desire to frustrate a comprehensive settlement. They hope to obtain their objectives through bilateral arrangements with their neighbors, without having to yield anything in return.

Experience in the past years has shown that the Sandinistas will not respond to diplomatic initiatives in the absence of military pressure. The United States' support of the armed democratic resistance is designed to apply sufficient pressure to encourage Nicaragua to enter meaningful negotiations toward democratic internal reconciliation.

Chile

United States policy toward Chile is to encourage a peaceful, orderly transition to democracy and human rights improvements. The intent of the US resolution on Chile approved at the March 1986 UN Human Rights Commission meeting was to focus attention on the positive recommendations of the UN Special Rapporteur. The United States has encouraged dialogue between the Chilean Government and the democratic opposition and has strongly supported the National Accord while avoiding actions that might exacerbate existing tensions. The focus for all those committed to democracy should be on developing a broad consensus in Chile on a democratic transition.

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Haiti

United States policy toward Haiti is to support the provisional government in its effort to build a democracy based on a free press, independent labor unions, political parties and, ultimately, presidential and legislative elections. To this end the United States has increased its economic assistance to Haiti this fiscal year from $50 million to at least $60 million. In light of the potentially destabilizing shortage of foreign exchange, it would be appropriate for the Mexican Government to provide credit for the sale of petroleum products to Haiti. We believe that we and other countries and political organizations can play a constructive role in Haiti by encouraging civic awareness and helping to train responsible political parties.

Cuba

As long as the Cuban Government maintains its support for violent political change and its close political and military cooperation with the Soviet Union, we see no prospect of a substantial improvement in relations with the United States. Cuba shows no willingness to lower its presence in Central America or Southern Africa or take any steps to work toward a peaceful resolution of the conflicts in those areas. In fact, Cuba has hardened its position with respect to removal of its troops from Southern Africa, and its anti-US rhetoric at the Third Party Congress and at a large number of international fora has become even more harsh and vehement than before. A major Cuban foreign policy objective is to ingratiate itself with Latin American political and economic councils, while excluding the United States or diminishing its influence. Such an outcome could serve neither United States' nor Latin America's interests.

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3. Migrant Workers

US IMMIGRATION REFORM EFFORTS

About half of all undocumented aliens in the US come from Mexico, and more than a million were apprehended and returned to Mexico by INS in FY-84. Principal causes of this migration include the shortage of employment opportunities in Mexico, the lure of high paying US jobs, and family ties between residents of the US and Mexico.

Both houses of Congress are presently considering bills which would substantially change US immigration law. It is too early to know what form this legislation will take, or if and when the legislation will become law. The Senate passed its version, S-1200, on September 19, 1985. The House bill, H.R.-3810, is awaiting markup by the full House Judiciary Committee which could possibly occur in early May. The bill will then be sent to the Rules Committee, and subsequently referred for floor action.

Principal aims of the bills are to reduce the "pull" factor in illegal immigration by making it illegal for US employers to knowingly hire undocumented aliens, and to provide legal status to millions of aliens who have resided illegally in the US for an extended period. The Senate-passed version contains provisions for admission of large numbers of alien workers for temporary perishable crop work. President Reagan has met with Congressional sponsors of immigration reform legislation and has voiced his support for their efforts.

Mexico recognizes the sovereign right of the US to control its own borders, but has private misgivings about immigration reform legislation. Migrants to the US act as a safety valve for Mexico's expanding population, and emigrants also generate badly needed foreign exchange through remittances to families in Mexico. Traditionally, Mexico has sought to ensure that the human and labor rights of its citizens in the US are respected; and, it has favored the access by the largest possible numbers of its citizens to the US labor market.

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THE WASHINGTON POST FRIDAY, MAY 9, 1986 A19

Richard D. Lamm

It's Our Immigration Policy, Not Mexico's

DENVER—The people of the United States and the State of Colorado will play host this month and next to the annual United States-Mexico Interparliamentary Conference. There elected representatives of both nations will discuss common concerns, which doubtless will include U.S. immigration policy.

Mexican officials have said they should have a role in formulating that policy. Mexico today is the largest single exporter of immigrants to the United States. And as Mexico's population continues to grow, migratory pressures are bound to become more acute.

Mexican assertiveness about U.S. immigration policy is not a new phenomenon. On Dec. 8, 1982, the Mexican senate adopted a resolution claiming its right to be consulted on this issue. The resolution stated that U.S. immigration policy "should be treated from a bilateral and even multilateral perspective."

Further, it demanded "that this matter be turned over to the Foreign Relations Committee of the [Mexican] Senate for detailed analysis, and that it be included as part of memos to be treated at the next . . . Mexico-U.S. Interparliamentary Conference."

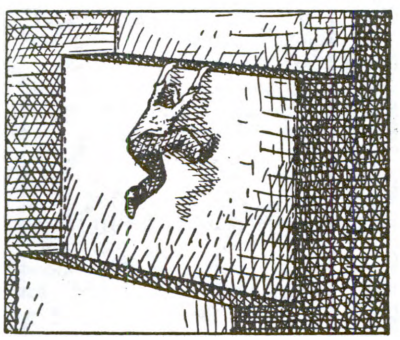
Six months after the Mexican senate adopted that resolution, that nation's government unilaterally took steps to stem the flow of illegal immigrants coming across Mexico's southern border. In explaining his government's policy, Interior Minister Manuel Bartlett Diaz stated that immigrants have "taken jobs from Mexicans" and caused "social pressures because of excess demands in all services."

In addition to tightening control of its own southern border, Mexico since 1984 has required citizens to show a national identity card to gain access to many government services.

Mexico appropriately established these domestic policies. The steps were not taken with malice toward Mexico's southern neighbors, and they reflected no xenophobia on the part of Mexican officials. They were, rather, a manifestation of the government's desire to protect the interests of its citizens and ensure stability.

Those of us who advocate immigration reform in the United States are motivated by similar concerns for our own fellow citizens. Many of the U.S. citizens adversely affected by large numbers of Mexican immigrants (both legal and illegal) are minority group members, including Mexican Americans, who must compete with aliens for jobs and social services. Any government that does not protect the welfare of its citizens is abdicating its responsibilities.

BY P. KOLSTI



In the past, Mexico has protested U.S interference in its domestic affairs, often with good reason. Restrictions on the influx of Mexicans to the United States may have some unpleasant consequences for the Mexican government. But that doesn't entitle that government to a determining voice in our policy-making process. Mexico's own history shows the inadvisability of meddling in another nation's internal affairs.

The Mexican Constitution of 1917 was itself a response to foreign meddling. For the past seven decades, Mexico has jealously guarded its sovereignty—primarily against interference from its giant neighbor to the north, such as U.S. intervention during the Mexican Revolution of 1910.

Mexico is justified in guarding its right to make its own decisions, unfettered by foreign interference—but it must be prepared to live with the consequences of its policies. Mexico's poor and unemployed are Mexico's responsibility, and it should not view the United States as a convenient place to export its problems.

Mexico has grown used to having the United States as a safety valve for its excess population. For years Mexico has delayed dealing with its internal and economic problems because that option was available. It would appear many Mexicans view emigration to the United States as their inalienable right and the United States' obligation.

The U.S.-Mexico Interparliamentary Conference should focus its discussions this year on how the United States and Mexico can work together to solve the problems that are causing massive emigration from Mexico.

The writer is governor of Colorado.

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212
JX1428 L.A. Mexico

Border with Mexico: Bullets fly among illegal aliens, drug smugglers, bandits, police

A cat-mouse game gets bloody

San Ysidro, Calif.

■ The long U.S.-Mexican border is turning into a combat zone.

Occasional violence always has been a part of the uneasy cat-and-mouse game between illegal aliens and the U.S. Border Patrol. But increasingly desperate aliens, bandits and drug smugglers are making robbery, assault and even murder common—not only against poor aliens trying to sneak into the country but against American law-enforcement officers as well.

"Crossing that line is no longer an inconvenience; it's a hazard," says Ronald Dowdy, assistant regional commissioner of the Border Patrol.

While victims usually are impoverished Mexicans seeking a better life in *el Norte*—the North—attacks on U.S. officers policing the boundary are up 40 percent over last year. A U.S. Customs Service agent was killed by drug traffickers in February near Sells, Ariz.

Behind the rise in violence is a new tidal wave of immigrants that Mexico's mounting economic woes and falling oil revenues have unleashed. Officials estimate that arrests of illegals crossing the border are up 50 percent over 1985.

Nowhere is the surge of immigrants and violence more acute than on a 16-mile stretch of border south of San Diego. Though only a sliver of the 1,900-mile boundary, this gateway anchored by Tijuana and close to rich California cities is expected to account for a third of the 1.8 million apprehensions of illegal aliens nationwide this year. There were 1.2 million arrests in 1985.

Illegal aliens aren't the only problem. The border area has long been a favorite hideout for lawbreakers from both countries. U.S. and Mexican law officers joined in a two-month roundup this spring that netted some 3,500 fugitives wanted on charges ranging from child abuse to murder.

STAN HONDA FOR USN&WR

Border patrolmen, San Diego police check bulletproof vests, guns for night on the border

Border patrolmen in the San Diego sector complain of aliens desperate to elude capture battering them with rocks and tequila bottles. So far this year, four officers—twice as many as in all of 1985—have been hit by gunfire. Only one was injured; bulletproof vests saved the others. In one of the incidents, a vest stopped a bullet inches from a patrolman's heart. He and other officers returned the fire, and the gunman fell in a spray of bullets.

Bandits preying on immigrants are growing more vicious. Two Mexicans crossing the border at night recently were shot, robbed and left bleeding in the darkness. So active are the bandits that the Border Patrol and San Diego Police Department have formed a special border-crime-prevention unit to protect illegal aliens.

Another source of danger is "coyotes"—professional smugglers who for a fee help spirit aliens across the border. Though often paid hundreds of dollars for each person they bring in, coyotes show little regard for the lives of those hiring them. One smuggler, driving a van loaded with illegal aliens, jumped out of the moving vehicle when the Border Patrol intercepted it. The van plowed off the road and overturned, injuring 13 of the 20 aboard.

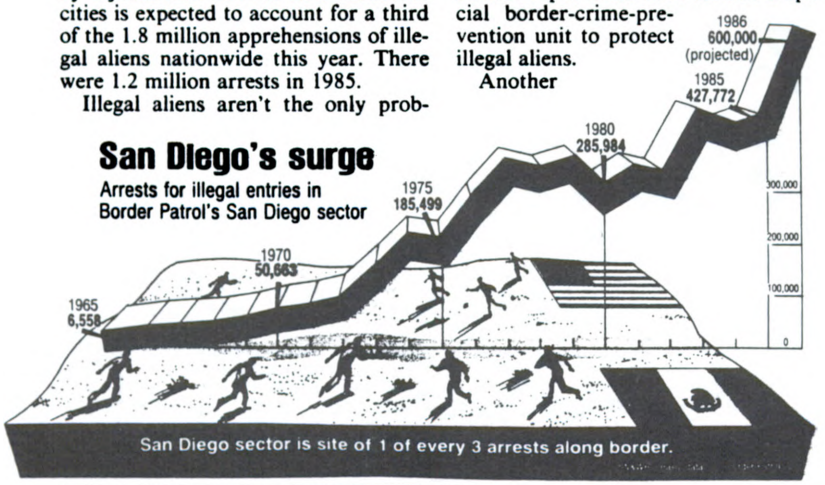
Major contributors to the border violence are drug smugglers plying new routes for their illicit traffic, now that authorities have curtailed the narcotics trade in the Southeast. "We were expecting more activity, and unfortunately we were right," says Allan Rappoport, U.S. customs director for the California border region.

During the first 3½ months of this year, customs agents in the San Diego district seized 221 pounds of cocaine—more than in all of 1985. Before 1980, an average of 4 pounds was confiscated annually.

Customs inspectors now are required to carry weapons. Border patrolmen in San Diego are being outfitted with "soft body armor," as bulletproof vests are called. The patrol is looking for vehicles that will provide officers with greater protection from rock-throwing aliens. Marksmen are training patrolmen in "instinct shooting" so that they can reduce their response time in shoot-outs.

Leo Chavez, research associate at the Center for U.S.-Mexican Studies at the University of California, San Diego, and the College of Northern Mexico in Tijuana, asserts that U.S. officials have developed a "war zone" mentality to win more funding for the Border Patrol. He urges more focus on the economics fueling the wave of undocumented workers, arguing: "These people are like Ping-Pong balls caught in a game of economic necessity."

Whatever the cause, U.S. officials fear the country is on a collision course with illegal immigration. Warns Howard Ezell, Western regional commissioner of the Immigration and Naturalization Service: "The public doesn't know how open U.S. borders are. There's a day when this whole thing will explode." ■



by Steve L. Hawkins

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THE NEW YORK TIMES, FRIDAY, FEBRUARY 21, 1986

'Startling' Surge Is Reported In Illegal Aliens From Mexico

By PHILIP SHENON
Special to The New York Times

WASHINGTON, Feb. 20 — The Commissioner of the Immigration and Naturalization Service warned today that there had been a "startling" surge of illegal aliens entering the United States from Mexico in recent months.

"We are seeing the greatest surge of people in history across our southern border," Commissioner Alan C. Nelson said at a news conference called to renew the agency's appeal for tougher immigration laws.

Mr. Nelson said American border agents were apprehending nearly 40 percent more illegal aliens from Mexico each day than were captured last year. Immigration officials expect to apprehend 1.8 million illegal aliens nationwide this year, he said, 50 percent more than last year's record total of 1.2 million.

95% Enter From Mexico

Even though the number of immigration agents assigned to the Mexican border has been greatly enlarged, he said, the improved law-enforcement effort has not kept pace with the number of people trying to cross into the United States.

Nearly 95 percent of the aliens apprehended by the immigration service attempt to cross from Mexico. Officials say that for every alien apprehended, two or three aliens are able to cross the border without detection.

Mr. Nelson said that economic troubles in Mexico and Central America were largely responsible for the growing number of people entering the

Continued on Page A15, Column 1

Agence France-Presse
Alan C. Nelson

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Continued From Page A1

United States illegally. The figures released today, he said, demonstrated the need for legislation to provide sanctions against employers who knowingly hire illegal aliens.

"We need the immigration reform legislation," he said. "The best deterrent to illegal immigration is to remove the attraction of easy-to-obtain jobs. We remain hopeful that this legislation will become a reality this year."

Last month, he said, the Government apprehended 131,500 illegal aliens on the border with Mexico, as against 86,200 in the same month last year. "The pace in February has not slackened," he said.

The numbers may grow even further, he said, as a result of the earthquakes that devastated portions of Mexico City last year. The earthquakes uprooted tens of thousands of people.

Mr. Nelson said that narcotics trafficking remained a growing problem for the Border Patrol. He released figures showing that the number of narcotics seizures at the borders had increased by more than 25 percent over the last two years.

The immigration official suggested there was a growing "criminal element among those coming in, which can add to crime in many of our cities and communities."

Rise in Drug Smuggling

According to the Immigration Service, border agents made 886 narcotics seizures at the borders in the last fiscal year, which ended Sept. 30, up 28 percent from the previous year. The value of the seized drugs nearly tripled in the same period, to $120 million from $42.5 million.

According to immigration officials, the growing number of arrests of illegal aliens is partly a result of the recent addition of 650 immigration agents on the border with Mexico, a one-third jump in the size of the patrol. But they are still badly outnumbered, Mr. Nelson said.

"Our intelligence sources report that 1,500 persons a day are arriving by train at Mexicali, Mexico, from the interior with most continuing by bus onto Tijuana on the border," Mr. Nelson said at the news conference.

"Mexican airlines also tell us they are seeing more poor people arriving by air at Tijuana on the 14 daily flights from the interior," he said. "The conclusion drawn from this heavy flow of traffic is that many, if not most, will try to enter the United States illegally."

He said the numbers pointed up the need for immigration reform, specifically legislation now before Congress that would impose penalties on employers who hire illegal immigrants. In the past, the Reagan Administration has supported such bills, including one passed by the Senate last September and awaiting action in the House.

Mr. Nelson seemed to play down the results of a report prepared by the President's Council of Economic Advisers, which found that proposals to punish employers of illegal aliens would have adverse effects on the economy. The report found that sanctions against employers would impose a new "labor market tax" that would reduce productivity.

The immigrantion bill, Mr. Nelson said, would aid the Government by, among other things, reducing the use of such public facilities as hospitals and schools by illegal aliens. And some Americans might be put back to work as illegal aliens were removed from some jobs, Federal officials have said.

Mr. Nelson said he hoped Congress would view the legislation as "not only necessary, but also a cost saver."

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Reagan Council to Attack Hiring Illegal Aliens

Speakes Quotes From CEA's Planned Report to Congress

WP 24 Jan 86 p. A6

Associated Press

President Reagan's Council of Economic Advisers is expected to tell Congress that the economic benefits of international migration do not justify employment of illegal aliens, a White House official said yesterday.

Spokesman Larry Speakes told reporters that a draft of the report, which he said would remain unchanged "in all probability," declares:

"The economic gains provided by international migration . . . do not justify the presence or employment of aliens in the United States on an illegal basis.

"Illegal aliens willingly defy American laws while their presence establishes claims to economic opportunities and constitutional protections," Speakes quoted the report as saying. "As a sovereign nation, the United States must decide, not only who may cross its borders, but also who may stay."

The New York Times reported yesterday that the draft also said proposals to punish employers of illegal aliens, as provided by legislation that the administration supports, would harm the economy. But Speakes said this section was dropped from the draft 10 days ago.

Speakes said the report does not make policy judgments and would not change the president's position in support of legislation designed to curtail the influx of illegal aliens by penalizing employers who hire them.

The report is expected to be submitted to Congress next month.

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28 THE WALL STREET JOURNAL TUESDAY, DECEMBER 24, 1985

POLITICS AND POLICY

Proposal to Let Foreign Workers Seek Farm Jobs Threatens to Block Overhaul of Immigration Law

By Ellen Hume
Staff Reporter of The Wall Street Journal

WASHINGTON—Even as worries grow that foreign labor is taking U.S. jobs, Congress is moving toward creating a program that would bring hundreds of thousands of temporary workers into the U.S. to pick perishable crops.

The new program, which won Senate approval as part of an immigration-law overhaul, is so controversial that it has stalled work on the immigration issue in the House. At the heart of the dispute are questions mired in emotional rhetoric: Is such a massive program needed? Will it exploit workers, as was charged of the controversial Bracero program of the 1950s? Will it take jobs from U.S. citizens?

The success of the decade-long immigration-control effort in Congress hinges largely on how these questions are answered after the House returns in January.

Crops Would 'Rot'

Each side is adamant. According to Sen. Pete Wilson, if there isn't a large-scale foreign worker program, the proposed new immigration controls would force a typical agricultural grower "to watch his crop slowly, but irreversibly, rot in the fields." The California Republican is sponsoring the amendment to create a three-year guest worker program.

But Rep. Henry Gonzalez (D., Texas) charges that the foreign workers would be "rent-a-slaves," and another opponent, Richard Fajardo of the Mexican-American Legal Defense Fund, says, "Instead of immigration control, it's going to be chaos."

The program would allow as many as 350,000 foreign workers a month to enter the U.S., even if they don't have any advance assurances of finding agricultural jobs. Western fruit and vegetable growers, who currently rely on illegal aliens to pick most of their $23 billion of perishable crops, argue that foreigners have been doing this work, legally or illegally, for 100 years.

If the proposed immigration law is passed, growers will be subject to criminal penalties for hiring illegal aliens. But the growers say they won't be able to find enough U.S. workers to fill the jobs.

Uncertain Employment

It is difficult to attract U.S. workers to pick grapes, citrus and other perishable crops because "workers with options reject the uncertainties of the seasonal farm-labor market," says Philip Martin, agricultural economist at the University of California at Davis. Critics of the guest-worker program cite studies showing that higher wages and benefits would attract more U.S. workers. But growers disagree and have launched a multimillion-dollar lobbying campaign to press their view.

They also have the backing of the Reagan administration. At a House hearing this fall, for instance, Deputy Agriculture Secretary John Norton agreed with the growers that such inducements would "probably not" attract more U.S. workers.

But administration officials aren't uniformly enthusiastic about the foreign-worker proposal. Labor Secretary Bill Brock lost an internal battle over the issue after raising objections shared by civil-rights groups, the AFL-CIO labor federation and the congressional leaders of the immigration-overhaul effort, Sen. Alan Simpson (R., Wyo.) and Rep. Peter Rodino (D., N.J.).

Mr. Brock is particularly concerned about provisions in the Senate-passed bill that would, for the first time, allow foreign nationals to enter the U.S. without having specific jobs waiting for them and without advance government certification that U.S. workers aren't available. Instead, foreign workers would simply obtain visas at a U.S. consulate, then pay their own travel costs to the U.S. to look for work. They would be subject to deportation if they don't find jobs involving perishable produce within 30 days.

The old, much-criticized Bracero program provided a worker with a signed job contract before he crossed the border, including free transportation, housing and guaranteed pay for three-fourths of his contract period. Similar requirements are incorporated in the current small-scale foreign-worker program, which brings about 20,000 apple-pickers, sugar-cane cutters and sheepherders into the U.S. each year.

The Western growers argue that the existing program requires too much advance planning to be suitable for harvesting perishable crops. They also say eliminating the advance contract would free workers to travel from employer to employer as they wish, without being indentured to anyone. Once a foreign worker is hired under the Senate program, he or she would get housing or a housing allowance.

But opponents say that heavy use of foreign workers, who would be desperate to land any work, would inevitably undercut the ability to unionize or improve working conditions. Rep. Howard Berman (D., Calif.) says: "The grower can say, 'If you want to be in the quota for next year's work, you better not give me any sass, better not be fighting for unionization, better not be pushing for any grievances.' "

Reagan Aide's Past Role

The AFL-CIO is particularly galled by Mr. Norton's prominence in promoting the program. Before joining the administration, Mr. Norton was involved in several bitter labor disputes with employees in the lettuce and other fields he owns.

Meanwhile, the issue threatens to block the entire immigration bill, already one of the most divisive and complicated proposals before Congress. Some influential House members are even discussing exempting Western perishable agriculture from the immigration-control effort. That would allow the growers to continue hiring illegal aliens and sidestep the guest-worker issue.

Others instead suggest expanding the number of permanent "green card" resident aliens, arguing that such workers would be less vulnerable to exploitation.

Meanwhile, some argue that a guest-worker program may in the long run be harmful to growers. Mr. Martin, the agricultural economist, contends that the growers' dependence on foreign labor "spells disaster"; unless U.S. growers mechanize their farms, he says, they eventually won't be able to compete with produce grown abroad using still less expensive labor. The dozens of citrus-mechanization projects that started after the Bracero program ended in 1965 have dwindled to one or two, he says, and he concludes: "There has not been a push to mechanize, because the workers have been available."

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THE WALL STREET JOURNAL WEDNESDAY, MAY 1, 1985

Heading North

Upheaval in Mexico Is Prompting Millions To Resettle in the U.S.

Villages Wither, Industry Is Desperate for Laborers; The Crowds of Tijuana

Culture Clash in California

By George Getschow
Staff Reporter of The Wall Street Journal

NAPIZARO, Mexico—Five years ago, this rural mountain village of 1,200 people was bursting with pride over the accomplishments of its foreign legion: the young men who had left here to work in North Hollywood, Calif.

Because of those men and their earnings, Napizaro boasted streetlights and modern brick homes, some with saunas and landscaped courtyards. A modern community center, an infirmary and a new bullring, the last fittingly named "North Hollywood California," had been completed. An elementary school and a giant cathedral were just getting under way. Each January, the villagers working in the U.S. would return briefly for the town festival to celebrate the fruits of their labor and lay the foundations for their families' future here in central Mexico.

But times have changed, both here and in North Hollywood. Here, the streetlights have been dimmed, and the last new home built has never been lived in. The cathedral is barely half completed. Cattle graze on the elementary-school site; not long after the school was planned, the villagers sadly concluded that there weren't enough children around anymore to justify a new building.

First in a series of stories on Hispanic workers in the U.S.

"We're running out of people," sighs Adolfo Paz, who recently sold the homestead he was saving for his five children and their families because they have decided to live permanently in North Hollywood. At the town cemetery, the 66-year-old town elder is overcome with grief as he inspects the graves of his parents and grandparents. "For generations, our families lived together and were buried together in Napizaro," says Mr. Paz, his eyes brimming. "But now our children have become strangers to us. They live in a different world, and they will die in a different world."

Permanent Resettlement

In the past, the men from the village migrated alone to work as illegal immigrants in small plants and businesses in North Hollywood. And for years, they sent their pay home, part of it earmarked for civic improvements, before eventually returning home for good themselves.

Today, however, nearly three-quarters of Napizaro's 156 heads of household and their families have settled permanently in North Hollywood. Although most are there illegally, some have bought homes and started businesses, and their children have grown up, gotten married and begun raising families of their own. That means there is less money to save in the States and fewer dollars to be sent back to Mexico.

In North Hollywood, 68-year-old Napizaro-born Augustin Campos says, "Our village has put down roots here, and they grow deeper every year." It was Mr. Campos who years ago got work in North Hollywood and led the way north for his fellow villagers; still, he always returned to preside over the town festival. This year, however, the elder wasn't on hand, having settled for good in North Hollywood. With him are his three sons, two daughters and 16 grandchildren, all of whom have taken up permanent residence there as illegal immigrants. Mr. Campos lives with two children in a comfortable four-bedroom home that they financed with a 30-year mortgage. He works in a factory assembling computer keyboards, earning $190 a week. And he recently severed his only remaining ties to his hometown by selling his land and cows.

"I love Napizaro," he says, "but I couldn't survive there anymore."

Drought and Debt

Since "la crisis" struck their villages several years ago, countless peasants from throughout poverty-stricken rural Mexico have reached the same conclusion. A devastating combination of drought, devaluations and huge debt has plunged the country into its worst economic upheaval since the 1910 revolution. The crisis has created hardships and reduced expectations for all Mexican classes, but it has caused misery and starvation for the country's bulging population of landless *campesinos*, or peasants. The government estimates that as many as 85% of all Mexican farmers live at or below subsistence levels and that some 30 million Mexicans don't have enough to eat.

Even such grim statistics, however, don't convey the depth of the destitution gripping today's Mexico. The poor pouring into the squalid slums of Guadalajara, a once-sleepy college town, beg for pesos with fire-swallowing acts. Barefoot children with bloated stomachs crowd street corners cleaning windshields and selling gum. And houses of prostitution, once staffed mostly by jaded urbanites, now are filled with young mothers from the country trying to put meat and milk on their families' tables.

For millions of Mexican families caught in these circumstances, the only choice is between starvation and migration. So they head northward, in numbers that are impossible to document but that are painfully apparent on a recent 1,500-mile journey from central Mexico to the border.

Extra Buses

At the sprawling bus station in Morelia, 60 miles southwest of Napizaro and a main launching point to the border, 12 extra buses a day (now 20 in all) barely dent the demand; weary women and children, their life possessions in tow, sleep on suitcases while a seemingly endless procession of men snakes its way toward the ticket counter. At the cathedral in Caparo, a decayed mountain village in the state of Michoacan, Padre Miguel Huerta's blessings for U.S.-bound families have become a regular ritual. Near the California border, the city of Tijuana now is swamped with families sleeping on park benches, in bus stations and in seedy hotels, waiting for smugglers to slip them into the U.S. "What was a trickle of families has turned into a flood," says Humberto Rodarte, who turns away many more families at his Tijuana hotel than he can possibly take in.

The increasing flow northward has already drained the central Mexican countryside of so much manpower that farm fields lie fallow and the local industry often can't come close to finding the workers it needs to operate even at half capacity. Children cut leather under towering sewing machines in shoe factories. Women rope calves and sink fence posts on the ranches. And old men, covered with feathers and blood, slice chickens at local slaughterhouses.

Now even the cities are being affected as a growing stream of skilled workers and even some professionals, pushed by the plummeting standard of living and pulled by pay scales at least 10 times better than anything Mexico has to offer, are fleeing to the U.S., often for good. The exodus is evident at a half-completed office tower in Guadalajara, where several hundred young boys lug concrete and steel in the shadow of a billboard imploring: "We Need 500 Peons and 500 Skilled Workers." Where are the men? "They've all gone to the States," says Superintendent Alfonso Cambron. "Since the crisis, they can't make enough here to eat and pay the rent."

What worries all working classes is that there now appears to be little hope of correcting the social and economic conditions that each day drive more Mexicans into the migrant stream. Staggering debt and sinking oil prices have foiled Mexico's ambitious industrialization, which was supposed to provide enough high-paying jobs to keep the nation's bulging population of 75 million people at home. Instead, real wages have tumbled and prices of most basic commodities have tripled in the aftermath of the 1982 devaluation. The upshot is that most working-class Mexicans earning the minimum wage of $3.75 a day can't feed their families, even on a diet of beans and tortillas.

Over the years since the revolution, every Mexican president has promised the peasants that he would greatly expand the country's arable acreage through irrigation and other rural development projects. But few of these "agrarian reform" projects have ever been built on the small farms. And those that have been built often have benefited the government at the peasants' expense.

One morning, as the sun rises over Lake Patzcuaro in the state of Michoacan, about 50 dairy farmers gather on the rooftop of the municipal government's office in Tzintzunzan to meet with Silviano Guillen, the commissioner of agrarian reform for the region. The government, it turns out, has quietly expropriated the *ejido*, a communal farm, which serves as the only remaining public entrance to the lake and the only source of water for the farmers' animals.

Commissioner Guillen, trying to pacify the peasants, explains that the government plans to build a giant greenhouse at the site to help reforest the denuded mountains surrounding their villages. "It will create jobs and income for your communities, and everyone will benefit," he assures them.

"It will destroy us," shouts a one-armed peasant, as the others nod in agreement. "Without water, our animals will die and then what will we do?" The commissioner

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seethes for several minutes as the men air their grievances, then explodes: "I couldn't care less about you. You don't have rights to this land. And with or without your approval, the greenhouse will be built."

The commissioner begins to leave, but one of the peasants grabs him by the arm. "You're stepping on us," the peasant fumes. "But we're not going to lie still. That land is our life. Either we fight for it or we go north."

And many are making remarkable sacrifices to reach the States. One such migrant is Salomon Estrada of Puacaro, a dilapidated village 10 miles up a dusty mountain road from Napizaro.

Until last year, the closest Mr. Estrada ever got to the U.S. was watching the bullfights in Napizaro's "North Hollywood California" bullring during the town's New Year's festival. The 34-year-old peasant, whose life possessions until last year consisted of a milk cow and a mud hut, says he was always "filled with jealousy" when the men from North Hollywood would return each year "in their big cars and fancy clothes" to beautiful homes built with U.S. dollars.

So Mr. Estrada sold his family's only source of protein—the milk cow—to pay his passage to South Texas, where he worked as a gardener for two months last year until he was caught by authorities and sent home. Now, with himself, his wife, Juanita, and his eight children half-starved, Mr. Estrada has been working 13 hours a day, seven days a week, for the past five months making bricks in a backyard pit to earn enough money to get back to the States. "These bricks are the only hope I have left," says the mud-caked peasant, pointing to the day's output. "My family is hungry, and we're running out of food."

Family Concerns

Such day-to-day struggles are something the Napizaro villagers living in North Hollywood have been about to put behind them. Aside from anxieties about their legal status, their concerns are no different than those of any American family: getting a good education for their children, making more money, paying less in taxes and meeting the monthly mortgage.

"Our plan was always to move back to Napizaro, but it doesn't seem possible anymore," says Adelina Santiago, who hasn't been to the Mexican town in five years. She and her husband now live in a comfortable suburban home with a two-car garage. They both hold down steady jobs. And their four children have all grown up in the States, speaking English instead of Spanish, eating hamburgers instead of enchiladas and tuning into Michael Jackson instead of Mexican *mariachis*. "Our children aren't Mexicans anymore, they're Americans," says Mrs. Santiago, passing out Donald Duck and Mickey Mouse party favors for her two-year-old son's birthday.

But middle-aged and older immigrants often cling to the old country culture even after many years in the U.S., creating a giant generation gap. As Mrs. Santiago cuts her son's birthday cake, for example, the children sing "Happy Birthday to You" in English while most of the parents sing *Las Mananitas*, "The Little Mornings," a Mexican birthday ballad, in Spanish. And when little Mario Santiago smashes the *pinata* with a stick, some of the parents are piqued that M&Ms and Twix Bars tumble out instead of traditional Mexican cookies and candy.

Many parents fret that their children are being corrupted by American values. Back in the village, single sons and daughters dutifully gave any pesos they earned to their parents out of respect for them; the parents, in turn, doled out an allowance to their offspring. And if the children wanted to go on a date, they would need both parents' permission and a chaperon. In America, however, "our children don't respect their parents and have developed loose morals," says Santiago Rodriguez, a 56-year-old immigrant whose 15- and 16-year-old daughters recently had children out of wedlock.

The campesinos are even getting caught up in the social upheaval sweeping U.S. households. Young women today are no longer content to stay home as their mothers did in Napizaro and cater to every need of their men. They have full-time jobs, bear fewer children and read womens' magazines that speak to them about independence and sharing household duties.

"I work as many hours and make as much money as my husband does, but he still expects me to come home, clean house and cook supper for him while he takes a siesta," says 19-year-old Maria Eugenia, a supervisor at an industrial tools plant who just married a recent arrival from Napizaro. "He thinks the old way; I think the American way."

For Mexican immigrants of all generations, melting into the mixture of the American pot is a slow and painful process. The Napizaro villagers live in the same neighborhoods, work in the same factories and go to the same church. They socialize with each other, marry each other and bury each other. This is done partly out of cultural identity but also to provide a sense of security; even after years in the States, the villagers live in constant fear of *la migra*, their Spanish slang term for the immigration authorities.

"We don't dare go anywhere alone for fear la migra will grab us," says 21-year-old Carlos Jaramillo, taking a break from a basketball game between the "old generation" and "new generation" Napizaro villagers. Such fears even afflict the youngsters. Four-year-old Mary Lou Ramirez, born in Napizaro, faces constant teasing from her two older sisters, born in the U.S. If she isn't nice to them, she says, her sisters call her an "illegal" and threaten to call the authorities and have her sent back to Mexico. "I wish I could be born again in the U.S.," she says with a sigh.

These days, of course, there are very few children like Mary Lou being born here in Napizaro because most of the parents have settled in the States. But some of the children have been left behind, often waiting for years for their parents to save enough to smuggle them across the Rio Grande. The separation "is worse than death," says Napizaro's Maria de Jesus Anaya, 77, who has been looking after six of her son Louis's 11 children for the last 10 years. "Sometimes the children say, 'Maybe Mommy and Daddy won't come because they don't love us anymore,' " she says.

'Impossible Situation'

Recently, Louis Anaya returned to the village to bring two more of his children to the States. But the reunion is hardly a happy occasion. "It's sad that I wasn't here to watch my children grow up," Mr. Anaya says, pointing to his 15-year-old son, Melesio. "He became a man while I was gone." And now the father must choose which of his children to bring back and which to leave behind. "It's an impossible situation," he says, shaking his head.

The women left behind fare no better. Marcelina Solorio, who is 40 years old, bore two of her husband's five children while he was working in the States. Now, pregnant again, she worries what would happen if she died during delivery. "He wouldn't even get back in time for my funeral," she says, recalling what happened when her sister died while the sister's husband was away two years ago.

The problem of Napizaro's prodigals dominates the discussions early one Sunday morning as the old people of the village gather at the giant, half-completed cathedral before Mass to hear the latest report on the church's construction fund.

Adolfo Paz, who coordinates the fund-raising drive in the States through his son, Meliton, doesn't have good news to report. "I'm afraid there's no collection this month," he advises the villagers, who have heard the same report for months now. "Meliton tells me some of the boys have been laid off, and others have too many family obligations." An old woman clutching a rosary mutters, "If something isn't done soon, we'll all be dead before the church is finished."

Back in North Hollywood, many of the villagers no longer see a need for such a big church. "My children are all dyed-in-the-wool Yankees," says Salvador Campos, who left Napizaro 20 years ago, started a clothing factory and has raised 11 children as U.S. citizens, some of them currently in college. Napizaro is so foreign to them, he says, "they couldn't even drink the water."

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A World Apart

Area Along Border Of Mexico, U.S. Has A Culture All Its Own

Biggest Industry in Region Is Illegal Immigration; How to Speak Spanglish

Juarez's Wading Commuters

By Matt Moffett
And Steve Frazier
Staff Reporters of The Wall Street Journal

CIUDAD JUAREZ, Mexico—About the time each morning that workers in New York are elbowing through subway crowds or workers in Los Angeles are weaving through traffic jams, commuters here are wading through the knee-deep Rio Grande to jobs in the U.S.

As the sun rises behind the silhouetted skyline of El Paso, Texas, a bus on the Mexican side of the border drops its load of laborers near a shallow bend in the river. A catering van trundles by selling coffee and pastries to groups of Mexicans waiting to wade across.

After rolling up his trousers and splashing across the river, Guillermo Perez spots one of the U.S. Border Patrol's conspicuous green Dodge Charger vans. "I'm going to be late for work," huffs Mr. Perez, a

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construction worker, almost dropping his sack lunch in his agitation. He walks over to a group of people waiting for the Border Patrol's change of shift, which will provide the opportunity to make a dash for the U.S.

So begins another workday on the border, where each morning thousands of Mexicans like Mr. Perez illegally commute to jobs that are vital to them and to the U.S. cities where they toil. And each of those mornings, hundreds of federal agents try to prevent the Mexicans from getting to work. It is the way life goes along the 2,000-mile Mexican-American border, the junction of the Third World and the First World but a part of neither.

Second in a series of stories on Hispanic workers in the U.S.

"People around here always say they live near three countries: the U.S., Mexico and the border," says Donald C. Shuffstall, an El Paso banker.

Artificial Line

The political boundary maintained by Washington, D.C., and Mexico City functions largely as an annoyance in the daily lives of the eight million Mexican and U.S. residents who live near it. To most of these people, the border is an artificial line on the map; they view their region as a land between two lands, with its own economy, its own culture and even its own language.

The region's lifeblood is the flow of goods and people across the border. The U.S. side depends upon the constant stream of cheap Mexican laborers, an abundance of Mexican consumers and a healthy and stable Mexican currency. Mexican border cities, lacking the capital for their own industries and retail sectors, rely on their U.S. neighbors to put their people to work and to provide them with quality goods.

The strong economic bonds between the boundary area's residents become strikingly apparent as one travels the border from east to west. Unemployment reaches 50% in the Rio Grande Valley of Texas; across the border from Texas, in flooded, cinder-block slums of Mexican cities like Reynosa and Matamoros, the figure is even higher. But on the Pacific Coast, prosperous San Diego is just 15 miles north of Mexico's most affluent border city, Tijuana, which boasts a lavish cultural center, a new panoramic theater and a bustling airport.

No Man's Land

These ever-changing cities have grown into some of the largest yet least understood urban centers on the continent. The 1.5 million residents of El Paso and its larger neighbor, Ciudad Juarez, would rank that binational metropolitan area as the sixth largest city in the U.S. Last year, according to Immigration and Naturalization Service statistics, more than twice as many foreigners passed legally through the city of Laredo, Texas, than through all the international airports in the U.S. combined.

The border has been an independent no man's land from the beginning. The U.S. surveying party sent to draw the new border in the 1850s was stranded in the wilderness without money, causing many of the explorers to desert to the goldfields of California. When Washington did send a check, it bounced.

Mexicans on the border have a history of rebellion against those in the interior. Disenchanted with the dictatorship of Antonio Lopez de Santa Anna, Mexican federalists in 1840 declared three northern states of Mexico as their own country, the Republic of the Rio Grande. But the new state didn't last long. An army from Mexico City swiftly crushed the border rebels.

The treaty ending the two-year Mexican-American War in 1848 gave Mexicans the choice of staying in newly acquired U.S. territory or moving back south of the border. Embittered Mexicans who elected to leave Laredo, Texas, dug up many of their dead and reburied them across the river in a new city, Nuevo Laredo, with a central square that was a mirror image of the city across the river.

Today, the border is still a political rather than a practical boundary. In Texas, wading to work across the Rio Grande is more akin to violating a "Don't Walk" signal at a downtown intersection than violating an international border. In Nogales, Ariz., the border is a 7-foot-high chainlink fence that is kept in a constant state of disrepair by wirecutting crossers. And in the rocky caverns between Tijuana and San Ysidro, Calif., the border is a land controlled not by INS officials but by gangs of bandits that prey upon illegal crossers.

The Mexicans and Americans who live along the border have developed a distinctive way of life that is a blend of their two native cultures. At high-school football games in Rio Grande City, Texas, vendors hawk tacos and chili pies instead of hot dogs and peanuts; and on the Mexican side, American football has become nearly as popular as *futbol*, or soccer.

A language frequently spoken on the border is a hybrid called Spanglish, which contains words found in neither Spanish nor English dictionaries. In Spanish, the English expression "to park a car" is *estacionar*; in Spanglish, it becomes *parquiar*. In Spanglish, truck is *trucka* and lunch is *lonche*.

Sometimes, though, it is simpler to compromise. Father Roy Snipes says Sunday Mass in Spanish at Our Lady of Refuge in Roma, Texas, but delivers the sermon in English. "This way everone understands something," he says.

Cultural ties reinforce commercial ties. When the Mexican government battled for power with the politically potent Catholic Church in the 1920s, waves of Mexicans were forced to cross the border to attend Mass during the Holy Week before Easter. U.S. merchants enticed the visitors with sales that made it the most profitable week of the year. The open animosity between church and state has long since ended, but Mexicans continue their traditional Easter pilgrimages to U.S. shopping malls and department stores.

Today, all sorts of unusual businesses and services along the U.S. side of the border compete to capture the Mexican market. Brownsville, Texas, may be the only place in the world where selling used clothing by the pound is a highly competitive retail business. A grocery store in Nogales, Ariz., offers carryout service both to the car and to the border bridge. And when Mexican shoppers find U.S. currency hard to come by in cities like El Paso, they swap pesos for dollars in the backs of station wagons that display the latest exchange rates on placards taped to the windshields.

The McDonald's in Nogales, just 200 yards from the border, does 70% of its business with Mexicans. Owner Joe Canchola staffs his restaurant with bilingual employees, accepts both pesos and dollars and serves hot sauce and jalapeno peppers with Egg McMuffins and Big Macs. "This isn't like running a McDonald's in Iowa," he says.

But this shared economy creates shared problems as well. After the peso devaluations of 1982, consumer spending by Mexicans on the U.S. side of the border dropped to $450 million from $4.8 billion in 1981. More than 700 businesses closed in Laredo alone. "We live and we die with Mexico," says Sammy Ladabaum, the owner of a Brownsville clothing store. "These days we're all dying."

Unscrupulous entrepreneurs also proliferate along the border, where the long arm of the law must strain to reach them. A woman in Laredo was arrested last year for operating what was nicknamed a "Brown Baby Association," which provided 70 Mexican babies from Nuevo Laredo to childless families in Utah. Airplane pilots smuggling U.S.-manufactured televisions and radios to secret desert landing strips in Mexico have sometimes been fired upon by Mexican customs officials. And in Nuevo Laredo's stone-walled circle of bars and brothels called "Boystown," a transvestite tavern named "The Dallas Cowboys" is evidence of the more sordid economic link between opposite sides of the border.

Increasing Danger

The murder last March of a U.S. Drug Enforcement Administration agent from Southern California brought attention to the increasing importance—and danger—of the border drug trade. One-quarter of the marijuana and cocaine and one-third of the heroin sold in the U.S. enter through the border with Mexico, estimates Marion Hambrick, special agent in charge of the DEA's Houston Field Division.

DEA officials say that only smuggling profits could account for the big, new homes and late-model automobiles in Starr County, Texas. The 1980 census ranked Starr County as the second-poorest county in the U.S., with 50% of its residents living below the federal poverty level. With an estimated half of the county's families involved in drug trafficking, "Starr County exists on smuggling," says Kenneth Miley of the DEA McAllen office.

Illegal immigration may be the biggest border industry. Juan Reyes carries immigrants on his back across the Rio Grande for 50 cents a ride, but more polished professionals called *coyotes* charge between $200 and $600, a figure that may include passage to Houston or Los Angeles, a phony Social Security card and assistance in finding a job. A couple of years ago, the INS broke up a border smuggling ring that is believed to have grossed $24 million a year.

More conventional service industries also sprout up around illegal immigration. Enterprising Mexicans sell tacos and, on chilly nights, sweaters, to the people gathered on the outskirts of Tijuana waiting to cross illegally into California. On the other side of the border, illegal immigrants make up as much as 15% of the weekend trade at the Holiday Lodge motel in San Ysidro, Calif. "If someone comes in with money we'll give them a room," says Ricardo Santa Cruz, the hotel's night manager. "We're not here to ask questions."

'Pay Is Better'

And once the Mexican commuters cross the border, they are vital to such busi-

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nesses as washing dishes, picking crops and cleaning buildings. Carlos Cruz Garcia has lived across from Brownsville in Matamoros for eight years, but has never worked a day in Mexico. Instead, he earns a living on Brownsville's shrimping fleet, even though he boasts of being arrested 50 times by immigration officers. "The pay is better on the American side," he says, where he can earn as much in one day as he can in a week at home.

Because of the economic ties, political ties between border cities are closer than ever. When directors of the El Paso Chamber of Commerce get into traffic disputes with police in Juarez, some of them say they need only flash a "distinguished visitor" pass signed by the Juarez mayor to resolve the problems. Del Rio, Texas, firefighters race their engines across the international bridge to Ciudad Acuna when that city's aged trucks aren't able to control a blaze. And governors of border states on both sides have met regularly since 1960 to discuss such issues as immigration, pollution and trade.

The relationship between border cities and their own national governments has been far less congenial. "Every time Washington or Mexico City tries to help out the border, they always seem to screw things up worse," says Thomas Lee, a business consultant in El Paso.

Mexico's federal government has been unable to help its border cities cope with the influx of thousands of new citizens from the interior. Last year in Reynosa, 1,000 squatters wielded bricks and baseball bats against police attempting to move them from their land. Mass transportation is so inadequate here in Juarez that some women factory workers must wake up at 4 a.m. to catch the bus for the morning shift at the American-owned factories in and around the city that employ 70,000 Mexicans.

Mexican border residents' growing dissatisfaction with the interior has greatly strengthened a conservative opposition party called the National Action Party, or PAN (the acronym is the Spanish word for bread). Recently, in staggering upsets against the ruling Partido Revolucionario Institucional, or PRI, PAN ousted ruling-party officials in several border cities, sending tremors all the way to Mexico City. "We have been ignored by Mexico City for too long," says Ciudad Juarez mayor Francisco H. Barrio Terrazas, the PAN's most charismatic leader.

U.S. efforts to deal with illegal immigration have also seriously strained relations with citizens along the border. The death of the Simpson-Mazzoli immigration bill in Congress last October relieved Mexicans, who feared the loss of their incomes, as well as Americans, who feared the loss of their workers and customers.

The bill, whose provisions included amnesty for millions of illegals in the U.S. and penalties for employers knowingly hiring undocumented workers, "didn't go over well on the border," says Ellwyn Stoddard, a border expert at the University of Texas at El Paso. (Rep. Sen. Alan Simpson of Wyoming, one of the bill's sponsors, says he plans a new legislative initiative to overhaul the nation's immigration policy; but this time, he says, there will be no provision for amnesty because many Americans are strongly opposed to it.)

The Reagan administration, too, has come under fire for its neglect of the border. After the devaluations, Vice President George Bush headed the specially created Southwest Border Action Group, which promised to speed the delivery of millions of dollars of border aid. But officials closer to the border say the group brought more hype than help. Included in the aid package was $4.3 million that went to provide housing for the elderly in Cathedral City, Calif., a relatively affluent retirement community near Palm Springs about 100 miles from the border. Other money went to construct or renovate schools in six New Mexico cities, most of which were more than 200 miles from the border. (A spokeswoman for the vice president says both actions "put money where it was urgently needed.")

"I am continually astounded by how little is known of our problems in Congress," says Rep. Ronald Coleman, Democrat of El Paso, chairman of the Congressional Border Caucus. "They didn't even know where the border was."

THE WALL STREET JOURNAL TUESDAY, MAY 7, 1985

Vital Resources

Illegal Immigrants Are Backbone of Economy In States of Southwest

They Make Computer Parts, Package Arthritis Pills, Cook, Clean and Baby-Sit

Prisoners in the Bunkhouse

If you are like most Americans, you probably think of illegal immigrants as the anonymous brown-faced people who stoop in California farm fields, clear tables in New York restaurants or mop up the men's rooms in Houston.

They do all that, but they also do a lot more.

Illegals in Silicon Valley make printed-circuit boards for IBM personal computers and assemble microchips for use in guided missiles. In Southern California, they make artificial-heart valves for a company that supplied parts used in the Jarvik-7 artificial heart. Elsewhere in the Southwest, they package contact-lens solution and arthritis pills, assemble baby strollers, pluck Thanksgiving turkeys, stitch Levi's sportswear and help make air conditioners installed by General Motors and Chrysler dealers. That car of yours may have a tankful of gasoline from an Exxon refinery in Texas where hundreds of illegals have worked.

"Undocumented" Hispanic workers, in fact, are the backbone of the Southwest economy. So dependent has the region's business become on these cheap, docile and abundant laborers that some industries would collapse without them. Illegals also improve the quality of life for millions of Southwesterners by keeping their offices spotless, by making home improvements affordable and by watching the kids so mom can hold a job. Across the Sun Belt, the idea of life without illegals is almost as alarming as the thought of life without sunshine.

Third in a series of stories on Hispanic workers in the U.S.

'Like a Drug'

"It's like a drug," says Thomas Muller, an economist at the Urban Institute of Washington, D.C. "If you withdrew it at this point, the effects would be severe."

Consider that:

—In Los Angeles, center of the $3 billion-a-year California apparel industry, two-thirds of the garment labor is estimated to consist of illegals. "Without these people from south of the border, we wouldn't have an industry," says Bernard Brown, the regional vice president of a Levi Strauss & Co. unit that makes ladies' sportswear. "It would be a catastrophe."

—In Silicon Valley, where illegals constitute between 10% and 20% of the work force, "we'd have a revolution" if all were deported, says John Senko, an Immigration and Naturalization Service official in San Jose.

—In overbuilt Houston, one-third of all construction workers are estimated to be illegals, doing jobs that nowadays most citizens refuse: lugging pots of hot tar to rooftops, pulling nails from concrete forms and clearing debris.

—In Brownsville, Texas, illegals working on fishing boats are helping to keep the shrimp industry afloat in its battle against cheap imports. "They're what make this impoverished economy tick," says David Eymard, the president of the Texas Shrimp Association.

—Illegals also work for state and local governments in the Southwest, cleaning city schools and highway litter and making up an estimated 70% of the highway-construction work force in Houston. The INS in 1980 even arrested eight illegal landscapers pruning trees at its own immigration-processing center near San Pedro, Calif.

Vital Necessities

The evolution of illegals from "wetbacks" to vitally needed workers in the Southwest hasn't occurred overnight. Mexicans helped put down the railroad track that opened the Southwest to begin with. From World War II to 1964, millions of Mexicans toiled on U.S. farms under the U.S.-sponsored Bracero Program, which took its name from the Spanish word for "arms." Mexicans and Central American refugees without work permits later moved into menial service jobs and finally, in the 1970s and 1960s, into construction and manufacturing jobs from the Louisiana Gulf Coast to Northern California.

During the big oil buildup of the early 1980s, when oil-field service companies advertised for pipeyard laborers and boardroad builders in Mexico City newspapers, as many as one in five residents of Louisiana was in that state illegally, according to the INS.

Today, illegals are helping to transform the Southwest into the nation's mecca of high technology. At Shiley Inc., of Irvine, Calif., where undocumented workers estimate that they make up 10% of the 1,200 employees, illegals are entrusted to make artificial-heart valves and disposable scalpels and syringes.

"What I do saves lives. It is very beautiful," says one employee, a Mexico City

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native. Shiley, a unit of Pfizer Inc., says it checks employees' working papers to make certain the workers are in the U.S. legally, but most employers admit they have no way of knowing if the papers are forged. If illegals work at Shiley, a company spokesman says, "We don't know it." Shiley pays some illegals nearly $9 an hour and includes them in company savings plans, the workers say, making the company a noteworthy exception in a region whose labor-relations policies usually confine illegals to the bottom rungs of pay scales.

Indeed, the willingness of illegals to work for the minimum wage or less has helped preserve the Sun Belt as a largely nonunion, cheap-labor zone for businesses moving from the North. In booming Los Angeles, where Mexicans hold 47% of the jobs in lumber, furniture, leather and other low-pay industries, wages in the 1970s rose about 25% less than the U.S. average. Illegals' depressing effect on wages in the border town of El Paso, Texas, helped the city lure a big part of the U.S. apparel industry.

"This economy was built on the assumption and reality of a heavy influx of illegal labor," says Leonel Castillo, a former INS commissioner.

Individuals are no less dependent on undocumented workers. In Houston, live-in maids can be had for $25 a day. Chauffeur-driven limousines from the city's affluent River Oaks area and station wagons driven by middle-class mothers make daily trips to the barrios to pick up maids wary of apprehension on a city bus. "They become, in the old-fashioned sense, a black nanny," says Polly Johnston of Houston, a housewife fluent in Spanish who helps her working friends find domestic help.

Secretaries, lawyers and bank officers in Houston's gleaming Texas Commerce Tower, the tallest building in the West, pay little attention to the crews of Mexican and Salvadoreans who rinse coffee cups, buff revolving doors and wash sidewalks every weeknight—all at a cost to tenants of about five cents a square foot monthly, about half the cost in New York.

The INS knows best how tightly woven illegals have become in the economic fabric of the Southwest. One recent Thursday, three agents on a sweep against contractors in north Houston hauled three drywallers from a residence being built by Ryan Homes Inc., the nation's ninth-largest home builder. A short drive later, they apprehended another three illegals pouring a sidewalk for No. 4-ranked U.S. Homes Corp. near a sign reading, "America calls us home." After another two arrests, the agents entered a barbecue restaurant for lunch and walked out with an illegal plucked from behind the counter.

But for the most part, employing illegals is a worry-free practice for major employers in the Southwest. The Los Angeles INS office generally doesn't bother raiding companies with 75 or more employees, or those with more than one building on the premises, because immigration agents could never cover all the avenues of escape.

A number of employers brazenly rehire illegals even after they have been raided, the INS claims. The Dallas INS office maintains files on about 150 so-called notorious employers, including Melody Homes Inc., which makes mobile homes.

"I'm a notorious character, all right," the president of Melody Homes, Bill Norris, says sarcastically. Like many other employers, he doesn't think it is right for industry to demand documentation from Hispanic people when blacks, whites and others don't have to offer any proof of legal residence. "Anybody who walks in the front door of our factory—we should be able to rely on them as a citizen of our country," he says.

Illegal employment flourishes in the Southwest by a highly efficient underground employment system. In the barrios near downtown Houston every morning, dozens of the undocumented show up at Spanish-language radio station KLVL, listening to help-wanted broadcasts in a crowded waiting room. Those who can't fit into the room pace the nearby sidewalks near a mural depicting the Statue of Liberty, hoping to be among the first to leap into trucks or vans cruising the neighborhood in search of cheap labor for the day.

A network of siblings, cousins and *coyotes*, or professional smugglers, keeps the Southwest's labor pipeline full of illegals. Donald Huddle, a Rice University economics professor, recalls taking a team of graduate students to Exxon Corp.'s Baytown, Texas, refinery during the last oil boom and watching an estimated 400 blue-helmeted illegals enter the plant gate every morning for painting, insulating and other maintenance work.

Whenever Exxon's labor contractor needed additional workers, the researchers found, smugglers would import Mexican villagers faster than the Texas Employment Commission could send unemployed citizens to the site. "Their job-placement system operated beautifully," Mr. Huddle says of the illegals. "Ours was like a Model T." Exxon says it can't find any record of a contractor using any illegals at the plant.

In recent years labor contractors have used illegals on maintenance or construction contracts at oil and petrochemical refineries throughout the Gulf Coast area, including plants operated by Dow Chemical, Monsanto Co., Texaco Inc. and Phillips Petroleum Co., labor organizers say. Southwestern Bell Telephone's ditch-digging contractor also makes heavy use of illegals.

"We don't think our contractor's employment practices are any of our business," says a Southwestern Bell spokesman, echoing the views of many companies. "We're not a police agency," he adds.

One of the world's largest refinery and nuclear-plant contracting firms, the Brown & Root Inc. division of Halliburton Co., hires so many Spanish-speaking workers that it conducts training classes in Spanish and puts bilingual foremen in certain jobs. A spokesman asserts that Brown & Root requires job applicants to show work papers or Social Security cards because its policy prohibits hiring illegals. But a spokesman concedes that "it isn't very difficult to obtain authentic looking papers."

For manufacturers in multinational industries forced to compete with cheap Third World labor, directly employing illegals can help make the difference between survival and extinction. The 10,000 illegals estimated to be manufacturing printed-circuit boards in Silicon Valley, often at below the minimum wage, give companies there a chance to compete against firms in the Far East, where wages run as low as 30 cents an hour.

Some defense contractors, such as Hughes Aircraft Co., can't move electronics production offshore because of national-security regulations, but they can still enjoy the use of immigrant labor right here at home. Thus, Hughes recently took steps to assure employees at its A7 Engineering unit in Santa Ana, Calif., that it was doing all it could "to help you with your immigration problems."

Although Hughes employs U.S. citizens on most of its defense jobs, in this case its use of noncitizens is perfectly legal, a company spokesman says. The illegals working at the plant, who number only about 20 of 100 employees, obtained jobs with forged documents, he adds. Nevertheless, when the INS informed Hughes that it had illegals on the payroll, "we certainly felt some loyalty to those employees," the spokesman says. "Some of these people have been here five or six years."

Without undocumented workers, "some precision machine shops that 'stuff' printed circuit boards might be forced to close due to their nearly complete reliance on undocumented workers," according to a University of California study.

A survey by the same researchers also found that in food processing, health care and a variety of other California industries, more than half the 177 employers surveyed would have to go out of business, transfer jobs overseas, raise prices or reduce their profit margins if they had to do without illegals. City officials in San Jose, Calif., sensitive to the importance of illegals to the local economy, adopted a resolution against "the unwarranted disruption of the business community" after a series of INS raids there in 1984.

No Complaints

Undocumented workers have come to dominate the dirtiest and most dangerous jobs because citizens have long since deemed such work beneath themselves. "When we would hire Anglos, their work was lousy," says Ron Britt, who supervises tree-trimming subcontractors for Houston Lighting & Power Co. But Mexican nationals, he says, happily dangle in branches and power lines for the minimum wage: "They get up and do the work and they don't complain." Ascertaining the legal status of the tree trimmer is the contractor's job, not the utility's, he adds.

Illegals' willingness to work without even basic benefits makes them all the more attractive to employers. "Whenever there's an accident on the site, the Chicano (Mexican-American) will stay home and ask for worker's compensation. The Mexicans, they work," says Raphael Maldonado, supervising a crew of five *mohara*—"little fish from the river"—finishing concrete at an Exxon station near Houston's Galleria shopping district.

Happily for industry, illegals keep not only wages but unions under control. Some auto-parts manufacturers have moved illegals into their work forces as part of a strategy "to weaken union strength, keep wages low and promote competition among workers of different race and citizenship," according to an academic paper presented last February at a meeting of the Los Angeles Business-Labor Council.

Illegals, where necessary, have functioned as effective strikebreakers as well. Last year, about 100 members of the Hotel and Restaurant Employees and Bartenders Union walked off the job when Mission Foods Inc., a tortilla maker for Taco Bell Restaurants, Safeway Stores and others, cut entry-level wages to $3.75 an hour from $5.25 to meet competition from other manufacturers employing illegals. Seven months later, with illegals helping to man

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the production lines at Mission Foods, the union caved in.

"The thing that scared us was that they hired these people so fast," says John Martin, an official of the union. The company says it didn't deliberately hire illegals, but the president of Mission's parent company adds, "I wouldn't be surprised if 50% of them were."

Easy Targets

Employment of the undocumented has become so widespread in basic Sun Belt industries that some unions have begun courting illegals for membership and winning job protection for them. Several locals of national unions say they know or suspect that they have illegals in their memberships. The International Ladies Garment Workers Union's contract at Hollander Homes Fashions Inc., a Los Angeles maker of bedspreads and pillows, requires the company to rehire any undocumented worker who is deported and comes back to work with a new name or Social Security number. (Hollander declines to discuss the matter.)

But illegals' complete dependence on their employers—for a safe harbor from the law, as well as for their livelihoods—still makes them easy targets for rip-offs and abuse. For example, in 1983, a federal court jury convicted two East Texas tree planters of involuntary servitude after they transported 19 illegals for hundreds of miles in an 8-by-13-foot U-Haul trailer, held them in a tiny bunkhouse at gunpoint for several days and fed them just one meal of bologna sandwiches or tortillas and beans after each hard day in the fields.

Illegals also pay an estimated $1 billion a year into the underground service economy that has sprung up to take advantage of their illegal status. Besides the average of $450 that most must shell out to coyotes, illegals often pay inflated rents at temporary "safe houses," pay high prices for shoddy counterfeit papers and sometimes are blackmailed by landlords and employers.

Flagrant abuses, meager wages and severe working conditions endured by illegals usually aren't part of the statistics documenting the economic vigor of the Southwest. The irony is especially evident in Silicon Valley, says Lenny Siegel of the Pacific Studies Center, a worker-rights group there.

"Most people assume that everybody here is a Yuppie engineer driving a Porsche," he says. But for everyone in a Porsche, he adds, "there are people who have to do the dirty work and don't get paid enough to survive."

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THE WALL STREET JOURNAL THURSDAY, MAY 9, 1985

The Gatekeepers

Immigration Service Has Mammoth Task, Minimal Resources

Border Patrol in Southwest Lacks Manpower to Cope With Illegal Immigrants

Koreans at the Rio Grande

By Matt Moffett
Staff Reporter of The Wall Street Journal

EL PASO, Texas—In the autumn of 1978, the U.S. Immigration and Naturalization Service announced without fanfare that it would replace and extend about a dozen miles of chain-link fence along the Mexican border near here and in Southern California. The project came to be known as the "Tortilla Curtain" because, as one skeptical Texas social worker put it, "it's thin, it's flexible and the Mexicans are going to eat it up."

But controversy devoured the fence before the Mexicans had a chance. The governor of Texas likened the toughened barrier to the Berlin Wall. Jose Lopez Portillo, then Mexico's president, condemned it as "a discourteous, inconsiderate act." Citizens on both sides of the border swamped public officials with letters after hearing reports that the fence would be sharp enough to slice off the toes and fingers of those trying to scale it.

Fourth in a series of stories on Hispanic workers in the U.S.

Finally, the INS backed down. It scrapped plans to make the existing fence longer. And it replaced portions of the old barrier only after promising that the reconstructed fence would be perfectly safe for those wishing to climb over it.

Today the fence—bent, battered, full of gaping holes—is a monument to the nation's ambivalence toward the agency that enforces its embattled immigration policy. At the border, the INS lacks enough officers and equipment to stop the illegal immigrants who are entering the U.S. at a rate of about four per minute. In the interior, its ponderous and archaic bureaucracy causes foreigners who want to immigrate legally to wait years for approval. In Washington, the INS hasn't the friends in Congress or the White House to provide it with the resources it needs.

"The INS has been treated like an illegitimate stepchild," says California Rep. Dan Lungren, the ranking Republican member of the House subcommittee on immigration. One reason is that a lot of people—even its supporters—have a low regard for the efficiency of the agency, which is a branch of the Justice Department. Republican Rep. Henry J. Hyde of Illinois once argued against cuts in the INS budget on the ground that the service was already "the worst agency in government . . . literally the pits."

But most people find it more convenient to ignore the INS entirely. If agents of the U.S. Drug Enforcement Administration were left without enough gasoline to take their cars on routine patrol, cries for action would echo on Capitol Hill. If the Internal Revenue Service kept the bulk of its information on sheets of paper stuffed in manila folders, the news would be on the front page. If most government agencies were left for 2½ years without a permanent director, the White House would doubtless face political pressure to fill the vacancy.

When the INS has been so neglected, few people outside the agency itself have uttered a word of concern on its behalf. "We are a lot like the soldiers in the Vietnam War," says Fred Stevens, a supervisory patrol agent in San Ysidro, Calif. "The country really hasn't decided whether its on our side, or the illegal immigrants' side."

Indeed, the INS's war against illegal immigration often makes it highly unpopular in a nation that proudly describes itself as a melting pot. And by keeping the INS weak, the U.S. is able to pursue two contradictory immigration policies: its stated policy of selective immigration and its actual policy of quite liberal immigration. "We [as a nation] are opposed to illegal immigration in principle, but we really object to the idea of the INS arresting some hard-working guy and taking away his chance to make a living," says Milton D. Morris, the director of research for the Joint Center for Political Studies in Washington.

Leonel Castillo knows the nation's ambivalence toward the INS only too well. As an INS commissioner in the Carter administration, "The only person who was picketed more than me was the president," he says. "In one week, I was picketed both by people demanding we deport more immigrants and people demanding we deport fewer."

The Reagan administration recently has taken a few steps to strengthen the INS. The agency is using a budget increase to hire 850 new border patrolmen, its largest staff addition ever. Over the next few years, the INS will also spend about $60 million to begin in earnest the daunting task of computerizing its files. "The image of the INS as the stepchild and the scapegoat . . . is changing," says the INS commissioner, Alan C. Nelson. "But like turning around the battleship, it's going to take time."

Meanwhile, INS troops are rapidly being overrun by a swelling tide of illegal immigrants. At any one time, there are fewer border patrol officers on duty along the 2,000-mile Mexican-American border than there are policemen on the day shift in Philadelphia. The INS has slightly more than a dozen immigration investigators in Houston to round up an estimated 500,000 illegal immigrants. Since 1972, the number of INS investigators in Los Angeles has been more than halved, to 60 from 140, while the number of illegal immigrants living in the city is believed to have grown to between 500,000 and one million.

The illegal immigrants are ingenious in frustrating their outnumbered adversary. Some wear horseshoes to throw mounted pursuers off the track. A well-aimed rock from an illegal immigrant brought a low-flying INS helicopter crashing to the ground in Southern California a few years ago. When border patrolmen in Eagle Pass, Texas, planted sophisticated electronic detection devices along the Rio Grande, some Mexicans stole one and forced the Border Patrol to pay an intermediary a $100 ransom to arrange for its return.

"When you're trying to stop a man who hasn't eaten in a day or two, you find he can be a very clever opponent," says Gene R. Smithburg, assistant chief patrol agent in the service's San Diego sector.

Mexicans and Central Americans aren't the only ones who penetrate America's soft underbelly. Last year, border patrolmen in the Rio Grande Valley of South Texas arrested illegal immigrants from 43 countries, including China, Korea and Poland. Agents in Los Angeles recently broke up a network that smuggled Indian Sikhs into the U.S. through Tijuana. "I come to work knowing I might meet anyone in the world," says Ed Barrett, a border patrolman in El Paso.

The INS was neglected long before immigration became a major issue. In 1924, the first 450 border patrolmen went to work after being selected from the same Civil Service register used to fill railway mail-clerk positions. The men received little training and worked in civilian clothes during their first several months on the job.

Like those who followed them in later decades, the first border patrolmen were outnumbered by the undocumented immigrants who swarmed across the Rio Grande. There were so many illegal immigrants in South Texas during the 1920s that border patrolmen often stopped arresting them by midday, "knowing inspectors at the port of entry would be unable to process more out of the country," according to the memoirs of one border patrolman.

Today, the greatest number of illegal immigrants passes through San Ysidro, where the INS has concentrated a defense system that has elements of both "Star Wars" and the Old West. On one typical night, a border patrolman operates an infrared detection device that picks up crossers' body heat and transmits their ghostlike images to a tiny viewing screen. The searchlight of a helicopter stabs menacingly into the darkness. Officers on horseback spur their mounts in search of crossers spotted in a rocky canyon.

But there are just too many immigrants and too few border patrolmen. Agent Paul Blocker Jr. questions two captured Mexicans outside of his Dodge Charger van when the radio dispatcher warns that a dozen more illegal crossers have been spotted in a downtown convenience store. There is nothing he can do about it. "Sometimes I feel like the Dutch boy with his thumb in the dike," Officer Blocker says with a sigh.

In El Paso, Texas, where more than 200,000 illegal immigrants were apprehended last year, the INS's technological superiority doesn't compensate for the immigrants' numerical superiority. Last year, the agency installed 11 television cameras to monitor illegal traffic splashing across the Rio Grande. But it doesn't have enough agents to catch all the crossers who appear on camera. "Part of the frustration of the television screens is that now we can see how many people actually do get in illegally," said Joseph P. Aubin, intelligence agent for the border patrol in El Paso.

And despite the INS's high-tech wizardry, it still lacks many of the basic tools of law enforcement. In recent years, officers in the Dallas district have at times been told not to arrest illegal immigrants because there hasn't been enough money left in the budget to pay for the gasoline needed to drive them back to the border. In McAllen, Texas, officers are sometimes forced to release 20 to 30 illegal immi-

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grants from Central America a day on their own recognizance because there isn't room to detain them in INS facilities or money to house them in the county jail; almost all of the illegal immigrants released without bond are never seen again.

In Eagle Pass, Texas, political upheaval across the river in the Mexican city of Piedras Negras is making the Border Patrol's hopeless task even harder. Last February, after gunfire at a political demonstration drove a mob of 100 Mexicans across the bridge to the U.S., all border patrolmen were pulled from their regular policing duties to control the crowd. "I can't even imagine how many people waded across the river that weekend," says Lou Gonzalez, the assistant border-patrol agent in charge of the Eagle Pass area.

Even if immigrants enter the U.S. legally, the INS has a hard time making sure that they obey the terms of their visa. The deficiencies of INS record-keeping embarrassed the U.S. during the Iran hostage crisis of 1979, when President Carter ordered the agency to expel Iranian college students living here illegally. The White House was shocked to discover that the INS didn't even know how many Iranian students were living in the U.S., let alone how many were here illegally. A good number of the Iranians the INS finally identified as deportable failed to attend deportation hearings or to leave the U.S. when told to do so.

Documents issued by the INS are so confusing that even the INS has problems keeping them straight. Since 1946, for example, the INS has issued more than 15 versions of the "green card" that allows foreign workers to reside in the U.S. (The current green card is actually white.) Until recently, immigration documents were printed in several different locations, each of which added slight variations and contributed to the disarray. The INS recently began issuing documents whose authenticity can be verified by a machine but later decided it would be too expensive and time-consuming to check all of the immigration documents at the ports of entry.

Undocumented foreigners exploit the confusion by counterfeiting identification cards. Today, Silicon Valley is flooded with counterfeit green cards that sell for anywhere from $50 to $100. And as far north as Milwaukee, officials have seen dozens of fake green cards used by illegal workers in the town's industrial heart.

Purchasing documents illegally is often a more convenient alternative to working through the overburdened and unwieldy INS bureaucracy. A line of Mexicans waiting to apply for immigration documents regularly forms overnight outside a port of entry in El Paso.

Dolores Alvarez, of Ciudad Juarez, Mexico, says she was turned away for a week when she tried to apply for a border-crossing card in El Paso. But that didn't stop her from entering the country. "It's easy to cross without a card," she says pointing to the dampened cuffs of her trousers.

The awkwardness of the INS bureaucracy encourages employers to hire illegal immigrants. For example, the INS H-2 program, created to allow foreign workers into the country for seasonal jobs, requires employers to apply 60 days ahead of time—often impractical for farmers harvesting perishable crops. Last year, no temporary farm workers entered Texas through the program, though thousands of undocumented farm workers make their home in the Rio Grande Valley, according to the state office of the U.S. Department of Labor.

When politicians do pay attention to the INS, it is often because they want an immigration matter settled favorably for a constituent. That was the case in 1981 when a congressional aide suggested that San Antonio District Director Richard Casillas change the listed age of a constituent on government records in order to make her appear eligible for retirement. "Not only does it illustrate a lack of sensitivity toward an overburdened agency but a willingness to have us commit an illegal act," Mr. Casillas wrote in an internal memorandum. (Mr. Casillas says he doesn't recall the name of the aide or the congressman.)

The work of other government agencies also takes priority over the work of the INS. To encourage the participation of Hispanics in the 1980 census, the Justice Department—at the Census Bureau's request—prohibited the INS from raiding businesses in search of illegal immigrants for several weeks. Apprehensions in some areas dropped to 25% of the previous year. "This told the troops in the field that the federal government has no interest in the job the immigration officers are trying to do," says Bill Chambers, the recently retired INS Dallas district director.

Away from Washington, the INS is frequently perceived as more of an enemy than the lawbreakers it tries to apprehend. The Berkeley, Calif., city council defied the INS in February by declaring the city a sanctuary for immigrants from war-ravaged Central America. After the border patrol and customs initiated intensive searches of automobiles at ports of entry along the Mexican border last winter, a committee of Mexican and San Diego County merchants threatened to sue the agencies for hurting their international business.

INS officers, in fact, are often made to feel like social outcasts. Raul Gutierrez's daughters were harassed at their El Paso elementary school after he helped prosecute a priest accused of smuggling illegal immigrants into the country. Kaye Cunningham says that several years ago women at a Methodist church in the Rio Grande Valley wouldn't speak to her after they found out her husband was an immigration officer. When Border Patrolman Louis Barragan's children are asked what their father does for a living, they have a standard and purposely vague reply: "Daddy works for the government."

David Jackson, a supervisory patrol agent in El Paso, says he spends a lot of his time devising ways to make his men remain interested in their formidable task. If an agent breaks the record for apprehensions in a day, Mr. Jackson will take him to lunch or let him dress in street clothes the next day.

"When you catch the same guy two or three times in a day, it gets frustrating," he says, driving along the U.S. side of the Rio Grande and gazing at the clusters of Mexicans waiting to dash across a railyard to downtown El Paso. "When you get right down to it, we're just truant officers going after people playing hooky from Mexico."

Illegal Immigrants backbone of economy

the production lines at Mission Foods, the union caved in.

"The thing that scared us was that they hired these people so fast," says John Martin, an official of the union. The company says it didn't deliberately hire illegals, but the president of Mission's parent company adds, "I wouldn't be surprised if 50% of them were."

Easy Targets

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Illegals also pay an estimated $1 billion a year into the underground service economy that has sprung up to take advantage of their illegal status. Besides the average of $450 that most must shell out to coyotes, illegals often pay inflated rents at temporary "safe houses," pay high prices for shoddy counterfeit papers and sometimes are blackmailed by landlords and employers.

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THE WALL STREET JOURNAL WEDNESDAY, MAY 15, 1985

On the Move

From Farm to Farm, Migrant Workers Struggle to Survive

Texans and Illegal Hispanics Vie for Jobs Paying Below Minimum Wage

The Squalor of a Shantytown

By Dianna Solis
Staff Reporter of The Wall Street Journal

GRANGER, Wash.—At 8 p.m., after a dinner of beans and tortillas, Ramona and Ruben Estrada unroll an old mattress on the kitchen floor. Their seven children, ages 5 to 19, bed down in a back room, where some of the windows are covered with plastic wrap.

The mice scamper across the floor and the chilly night breeze strikes deep into the two-room apartment, but everyone sleeps soundly. For at 4 a.m. all nine will rise for another eight-hour day of stooping in the lush fields of the Yakima Valley. In work exempt from most labor laws, or from enforcement of those laws, the Estrada family will lug their own drinking water and, at some farms, relieve themselves behind trees. Each family member will be lucky to earn the minimum wage, getting paid 17 cents for picking a pound of asparagus that their employer will sell for 70 cents.

Fifth in a series of stories on Hispanic workers in the U.S.

But it is a princely wage for a migrant family from the Rio Grande Valley of Texas, where one of three residents lives below federal poverty levels and where farm-worker unemployment reaches 50% in many areas. "What else am I going to do?" Mr. Estrada asks sullenly.

Destitute Conditions

To growers, food companies and consumers, the Estradas are just another nine brown faces among the South Texas farm workers who harvest the crops as they ripen in the verdant fields of the Pacific Northwest. They aren't illegal immigrants. They are U.S. citizens, forced to migrate annually from destitute conditions in South Texas, propelled by the same search for a decent life that draws illegal immigrants from Mexico to the U.S. Whether from Mexico or from South Texas, the flight from poverty and neglect for thousands of migrant families is an ever-northward phenomenon.

And today, the migrant's plight is complicated even further by people of their own ethnic group. Mexican-American farm workers have become painfully aware that Benito Garcia, U.S. citizen, can be replaced tomorrow with Benito Garcia, illegal immigrant.

"When we are working, the big problem is they don't pay us. They say, 'You don't like it, we'll get somebody else,' " says 35-year-old Juan Hernandez of Hidalgo County, Texas. These days, "somebody else" generally means illegal workers, who make up an estimated 50% to 70% of the nation's migrant work force on the farm.

The fount of the migrant-worker tide, legal and illegal alike, is a dusty region

that begins in Central Mexico and reaches 200 miles across the cactus and mesquite of South Texas. In both countries, industrial growth is stunted, education is spotty, water is short, Third World diseases prevail and the weather controls daily life. The value of a person is often measured by how quickly he or she can fill a sack with fruit or vegetables.

Pioneers' Descendants

Conditions in South Texas are little different from those in the destitute Mexican State of Jalisco, a major source of illegal immigration, says Jose Bracamonte, a Houston lawyer and former farm-labor organizer. "And the poverty in South Texas, just like the poverty in Jalisco, disciplines you to leave," Mr. Bracamonte says.

The quarter-million South Texans who fan out from their homes every year—to the fruit fields of the Northwest, the lettuce fields of upstate New York and many points in between—are the Mexican immigrants of earlier times. Some are descendants of Mexican pioneers who settled the region before it became part of the U.S. Others were invited to the U.S. to pick crops or lay rail during times of labor shortage and never caught the train home. Some are the children of the illegal immigrants of recent years. And a number of them are Vietnam veterans and elected public officeholders.

But their lives are proof that for people of Mexican descent, attaining legal rights in this country is no assurance of attaining the prosperity enjoyed by most. South Texas is three-quarters Hispanic. Like Mexico, it is a region of jarring contrasts, of barefoot squalor for the many and jet-set luxury for the few. Residents who can see natural-gas wells from their homes must buy expensive propane because gas utilities don't serve the area. Migrants in the Rio Grande Valley buy used clothing at seedy secondhand clothing stores that flourish throughout the region while land barons, oil men and rich Mexican tourists buy crystal and other finery at opulent local department stores.

Typhus and Parasites

"This is a heck of lot like Mexico," says cattle rancher Jim Hughes. "There is no middle class. It's the haves and the have-nots."

The Rio Grande Valley is also a place of Third World sicknesses: typhus, leprosy, and intestinal parasites from sewage-contaminated water. In the area's two most populous counties, Hidalgo and Cameron, tuberculosis rates are twice the national average. The nearest public hospital treating the indigent is in Galveston, Texas, 300 miles away. Midwifery, often botched by untrained women, also flourishes in the valley because so few expectant mothers can afford hospital care.

"How can you declare South Texas a medical emergency when the whole area has been like this for years?" asks David Cavanaugh, an analyst with the National Association of Community Health Centers.

In an area passed over by the industrial revolution, workers live by the whims of nature, and those whims have been severe of late. Agriculture experts estimate that it will take five years for the citrus orchards to recover fully from the deep Arctic freezes that have swept through the valley into central Mexico the past two winters. The stunted crop yields have driven more illegal workers into South Texas, and more migrants—legal and illegal alike—into the stream of workers to northern U.S. farm fields.

It is no wonder that South Texans escape in aging sedans with back seats full of children every year. Most migrants live along dusty, rutted back roads in *colonias*, or unincorporated shantytowns, where chickens cluck and children make their way sleepily every morning to back-yard outhouses. Sewers, paved roads, municipal water—all are luxuries.

Some of those on the move arrive at destinations that are, by comparison with their native soil, comfortable. For example, Pillsbury Co.'s Green Giant subsidiary operates a pleasant, tree-lined trailer camp in Pasco, Wash., where children attend a preschool center rather than hang around the fields. However, "Green Giant is the exception, not the rule," says Alcario Samudio, a former crew boss now providing legal services to the poor in South Texas.

And while the lot of some farm workers has improved in recent years, and there are many farms where they aren't abused, the lives of most remain much as they were decades ago. On Thanksgiving Day in 1960, when Edward R. Murrow awoke "the best-fed people in the world" in his television documentary "Harvest of Shame," the average farm worker earned $900 a year—70% below the poverty level. Today's average farm-worker income of $4,200, based on a survey of Texas tax returns by the United Farm Workers union, remains 60% below the poverty line. In the Mexican-American vocabulary, migrants are *campesinos*—the same word used in Mexico to describe the landless and impoverished peasants of the mountains.

"As far as being a harvest of *change*, it isn't," says lawyer Richard Gonzales of Texas Rural Legal Assistance.

Worthless Standards

Arturo Ramirez, who escaped from the migrant stream as a teen-ager, recently rejoined his in-laws in the fields for his own study of migrant pay scales. "I used to get $16 an acre to thin sugar beets in the '50s," says Mr. Ramirez, now the manager of a South Texas water district. "I got to Ray, Colo., to thin sugar beets in the '80s and they were paying $18. Same company: Great Western Sugar Co." A spokesman for that company points out that independent farmers, not the sugar company, pay

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the workers. Besides he says, migrants today have the use of a long-handled hoe, which makes their job less arduous than with the short-handled hoe most once used.

Depending on their size, many farms remain exempt from the federal minimum wage of $3.35 an hour, and many of those exempt farms in Texas are required by state law to pay no more than $1.40 an hour. In any area where wage minimums apply, employers may pay by the bucket or the sack as long as wages represent the equivalent of so much an hour. Even these standards are often worthless. Many migrants have witnessed crew bosses understating the number of hours that workers spend in the field to give regulators the appearance that the companies are paying the minimum.

Migrants say they get cheated in other ways. At the Sharyland Plantation, a 5,800-acre farm owned by the wealthy Hunt family of Dallas, workers last year won an injunction and $27,500 in a suit alleging that management switched from five-gallon buckets to 6½-gallon buckets without increasing the pay per sack of onions. Workers say the bucket switch made the onion sacks much heavier, but officials at the farm termed the suit "pure harassment" and said the sack weight didn't change.

Even for the most ambitious, getting by is difficult. In Hidalgo County, Texas, as cucumber pickers and their bosses flee a rainstorm, 57-year-old Alfredo Flores stays behind to fill just a few more 25-pound buckets; he is hoping he can earn the $15 to $20 he makes in a rainless, eight-hour day. His rain-soaked T-shirt clinging to his thin frame, he stoops, snaps a cucumber, stoops, snaps, lugs a bucket through the mud to a burlap sack, and stoops, and snaps. . . .

"I work to survive," he explains.

Thus, most migrants measure their progress by a much different yardstick than other Americans. Two harvests ago, Oralia and Luis Trevino saved enough wages to install a wooden foundation for a home. Last harvest, they erected the walls. This year, the family will have a roof, enabling them to move out of a trailer so cramped that the four children sleep with their feet under the kitchen table.

"What I want most is for my children to finish school," says Mrs. Trevino, who never made it past the fourth grade. She spent $300 that might have got her home up quicker buying the children a set of encyclopedias, and her concern is understandable: At 50%, the dropout rate in the Rio Grande Valley remains nearly twice the national average.

In Texas, right-to-work laws and the steady stream of illegal farm workers partly account for the meager pay and rigorous working conditions of U.S. migrant families. When the UFW tried to organize a melon strike in 1966, growers broke it by hiring illegals who snuck past a union blockade at the international bridge in Starr County. Today, the international bridge joining Hidalgo, Texas, and Reynosa, Mexico, becomes an open-air hiring hall at 5 a.m., where crew leaders pick up illegal farm workers by the truck load. Western growers of perishable fruits and vegetables have been lobbying hard for "guest worker" provisions in U.S. immigration law that would help to legitimize this practice.

Working conditions on the farm also remain exempt from many U.S. labor laws, which helps explain why migrant children are still found in U.S. farm fields. A few states do protect workers reasonably well. California in 1975 gave farm workers collective-bargaining rights and a mechanism for resolving grievances. The state also provided years ago for unemployment and worker's compensation and prohibited the quick entry of workers into fields freshly doused with pesticides.

Battling Growers

But Texas, home base to the nation's biggest concentration of migrant farmworkers, "is where California was 20 years ago," says Joanne Orijel of the California Rural Health Federation. Texas's first law directly benefiting farmworkers wasn't adopted until 1981, when the legislature outlawed *el cortito*, the short-handled hoe blamed for the widespread back problems of farm workers. Toilets, a place to wash and drinking water cooler than 80 degrees became law last year. Only this year will Texas farm workers become eligible for worker's compensation and unemployment insurance.

And growers are battling hard in the courts and the state legislature to gut Texas's new pesticide law, less comprehensive than California's regulations. One recent farmworker survey in the Rio Grande Valley found that 80% complained of dermatitis, 40% of chronic headaches and 23% of blurred vision. Crew bosses often insist that they have never had a worker complain of so much as a headache.

Here in the Yakima Valley, the illegals endure the worst of the bad conditions. Huddling closer to a pot of boiling beans, Maria Concepcion Villanueva, a Mexican national, says she spent a month of the recent harvest here sleeping under a picnic table draped with cardboard—and paid $5 a day for the campsite. "Things are better than they used to be," says landlord John Kilburn. "You should have seen this place when I bought it."

Another Yakima landlord, Katherine Sanders, spent years as an Anglo migrant from Oklahoma but now provides shelter to the seasonal Hispanic work force here. "These people like the way they live," she says, surveying her 10 converted mobile homes, patched with cardboard and inhabited by mice, for which she says she charges her exclusively Hispanic tenants only $100 a month.

Employers also are happy to provide shelter, for which they deduct from migrants' wages. Javier Lara of Sinaloa, Mexico, expected to collect about $1,000 after a month of planting trees in Oregon and found 90% of it deducted for housing, food and even his work equipment. His employer, a labor contractor, was working under a U.S. Forest Service contract.

For most Texas farm workers, the only way to a better life is to abandon the migrant stream altogether. Adolfo Valdez, a decorated Vietnam veteran, was thrilled last year to qualify for a federal program training janitors. He figured his annual wages would about double to $10,000 and, best of all, he could at last settle down in one place.

But by this spring, the federal program had run out of money, so Mr. Valdez, his wife and their six children are planning their itinerary for the rest of the year: asparagus, then strawberries, then apples in Washington; then back to Eagle Pass, Texas; then to Florida for oranges or back to Washington for more asparagus.

He sums up: "You get tired of running back and forth."

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THE WALL STREET JOURNAL THURSDAY, MAY 30, 1985

The Underclass

Illegal Immigrants In U.S. Are Problem Defying Easy Solution

Competing Interests Impede Attempts by Lawmakers To Create New Policies

Emotional Issue of Amnesty

SANTA ANA, Calif.—It is a textbook case of citizenship in action.

Hundreds of tenants living in run-down apartments marched on City Hall here recently to protest evictions. They staunchly refused to pay rent. They sued their landlords for damages, demanding improvements. And now the tenants are threatening to carry their revolt to surrounding towns.

There is nothing unusual about renters' strikes; however, this one involves mostly

This article was prepared by George Getschow, Thomas Petzinger Jr., Matt Moffett and Dianna Solis, Wall Street Journal staff reporters in Houston.

illegal immigrants who have the full support of city officials. "These folks are good, longtime residents and we're very defensive of them," says Wilson Hart, a city councilman elected to office with help from precinct workers who happened to be illegals.

Indeed, local officials here, where illegals make up about one-fourth of the population, have set aside more than $350,000 to help relocate evicted tenants. The local legal-aid society is helping evictees, most of whom are illegals, recover back rents and damages. Local courts have rallied to the defense of illegals when landlords have threatened to turn them in to federal authorities. And the police chief has refused to cooperate in any crackdowns by the Immigration and Naturalization Service.

Last in a series of stories on Hispanic workers in the U.S.

"We resist any efforts to harass these people because they're an integral part of the community," Mr. Hart says. "They have families here, they own homes and our economy depends on them. We're not about to let the INS or anyone else disrupt their lives."

Deep Roots

While the U.S. continues one of the longest immigration debates in its history, illegals are seizing rights that federal policy denies them. And as increasing numbers of illegals put down roots as deep as the Irish, Poles and other immigrant groups that preceded them, 15 years of federal indecision over what to do with them has only worsened. As a result, city councils and courtrooms throughout the Hispanic meccas of the Southwest are formulating de facto immigration policy on their own.

"Whoever happens to run across the problem has to make some policy," says Judge Ken M. Kawaichi of Superior Court in Alameda County, Calif., who recently ruled that five illegals qualified for in-state college tuition in California. "Congress has essentially abdicated policy making and leadership."

Five of the last eight presidential administrations and three top-level commissions have failed in efforts to overhaul illegal-immigration policy because of the competing interests and values aroused by this intensely emotional issue. Each reform proposal has pitted employers against the INS, Hispanic-rights groups against unionists, federal officials against local officials. And with every failure, legislators grow more fatigued.

"Congress is tired of this problem, and it wants a quick fix," says Virginia Lamp, an immigration lobbyist for the U.S. Chamber of Commerce. Adds Dan Haley, chief lobbyist for the Western Growers Association: "Policy makers have abandoned practicality for political expediency."

Sweeping 'Solutions'

As a result, many lobbyists say, current overhaul efforts call for sweeping, shopworn "solutions" that have been tried and proved unworkable elsewhere: some form of blanket amnesty for longtime illegals and fines against employers who hire the undocumented. Late last week, in fact, Republican Sen. Alan Simpson of Wyoming, a leader in the effort to change the nation's immigration laws, introduced at least the fourth bill in the current session of Congress aimed at controlling illegal immigration.

Sen. Simpson's package would make it unlawful for the nation's employers to hire illegal immigrants and would postpone resident rights for illegals until it is proved that employment of those illegals has declined sharply. But like Sen. Simpson's past efforts, his latest proposal has already ignited fierce resistance, something he has grown accustomed to. Immigration is a "no win" issue full of "fangs and claws," he says. Indeed, Muzaffar Chisti, an official of the International Ladies Garment Workers Union, calls the new bill "the worst of all possibilities." Sidney Weintraub, an immigration specialist at the Lyndon B. Johnson School of Public Affairs at the University of Texas, calls Sen. Simpson's proposal to delay amnesty "mean spirited" and "terribly cruel."

Yet most other proposals, which have called for an immediate blanket amnesty, have drawn equally emotional attacks. Many labor leaders say legalizing the undocumented will throw citizens out of work and only encourage more illegal immigration. County officials say it would drain social-service budgets if illegals suddenly became eligible for welfare. Others point out that blanket amnesty would reward lawbreakers while penalizing those patiently waiting to migrate legally.

Unfair Burden?

Employer sanctions, too, have encountered equally fierce opposition, though mostly from different camps. Employers say sanctions would place the burden of regulating immigration on their shoulders by, in effect, deputizing them as agents of the INS. Civil libertarians say proof of residency would require a forgery-proof national identification card, raising the specter of a police state. Hispanic-rights groups say sanctions would touch off widespread job discrimination against "foreign-looking" people.

Such discrimination was the case in California, home to the largest illegal population in the U.S., where employer sanctions remain on the books but haven't been enforced for years. Even some good-faith employers, the state found, refused to hire Hispanics to avoid unwittingly hiring an illegal. "The response of some employers was to screen employees on the basis of the color of their skin or their speech accent," a top labor regulator told the U.S. Civil Rights Commission in 1980.

At present, all the immigration-law changes that Congress continues to debate seem to ignore the experience of other countries. Employer sanctions have proven to be ineffective deterrents to illegal immigration in at least 20 nations, according to the U.S. General Accounting Office. Canada in 1982 convicted all of 29 employers under its sanctions law. In Canada and many countries, judges don't view employment of illegals as a serious offense and employers merely view fines as a routine cost of doing business.

"The number of sentences which have already been delivered is not so great," says Eckert Schiffer, an official of the German Interior Ministry, which clings to the concept nevertheless.

Other countries have found that simply granting blanket amnesty to illegal immigrants isn't any panacea either. Canada, France, Australia and others in recent years have declared blanket amnesties for their growing illegal populations and in each case only a small percentage even bothered to apply because of deep-seated mistrust of immigration authorities. "They just didn't trust us and I don't blame them," says Lloyd Axworthy, Canada's former minister of immigration and employment.

So Canada adopted a case-by-case amnesty program within the existing framework of its immigration policy—an approach that makes a lot of sense for the U.S., Canadian policy makers say. In fact, the Canadians commended their approach to U.S. lawmakers during last year's heated congressional debate as an inexpensive, practical and politically palatable way to slowly bring illegals into the economic mainstream of society. "We didn't get hung up in the competing interests that thwarted the bill in the U.S. Congress," says Mr. Axworthy.

To overcome fears of deportation, Canada's new policy provides for anonymous application through social-service agencies or other sponsors. To foster upward mobility of its newly legalized residents and to help assure that they remain off the dole, the government provides benefits ranging from instruction in French and English to job training and employment counseling. The government even extracted a commitment from certain employers to give time off for illegals so they can go to technical schools.

"There's a heck of a return in tax dollars," says Len Westerberg, a Canadian immigration official. "You're making someone a taxpayer instead of a tax-drainer."

Canadian authorities say U.S. lawmakers have also been unrealistic in trying to reduce illegal immigration without involving Mexico in its policy-making decisions. Canada, for instance, traveled to war-torn El Salvador, a major source of

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political refugees in North America, to enlist its assistance in controlling the exodus. Immigration experts say the U.S. for the first time is in a strong position to seek meaningful talks with Mexico on immigration issues, such as relaxation of Mexico's restrictive foreign-investment laws. That is because remittances from illegals—which represent Mexico's largest source of foreign exchange after oil—are declining as Mexicans settle permanently in the U.S.

Tangled System

Mexican immigration authorities say current U.S. policy doesn't begin to take into account the swelling population and economic despair gripping Mexico, nor the likelihood of looming labor shortages in the U.S., where fertility is at an all-time low. But because of their huge numbers, Mexican immigrants are relegated to the bottom rung of the U.S. government's immigration apparatus, a tangled system of categories. Vietnamese arrive as "political refugees," Poles as "parolees," Haitians as "entrants." Most Mexicans arrive as "wetbacks" because only 20,000 permanent visas are allowed each year, the same quota allotted every other nation and only one third the level of 20 years ago.

Because so few of the Mexicans who arrive in the U.S. qualify for legal status, "We've created a caste society and Mexicans don't have the same rights and privileges" as other immigrant groups, says Kevin McCarthy, an immigration specialist at Rand Corp. He predicts that the nation will face "increasing conflict over these distinctions."

Congress's failure to deal with illegal immigration has inspired private citizens to dream up their own solutions. Chicago insurance man Jack Stacey suggests that the U.S. waive Mexico's multibillion-dollar debt in exchange for the Baja Peninsula and develop it into a winter resort using unemployed Mexican laborers. "We'd have the finest resort in the world and they would have less people coming across the border," he explains. John Ormiston of Santa Monica suggests an even simpler solution: "Just raise the level of the Rio Grande to make it 'non-fordable.' "

For all its pride in being a nation of immigrants, the U.S. has long been preoccupied with erecting barriers to new ones. "So filthy and ignorant a mass of humanity we have never seen on the face of the earth," the New York American Republican said of the Irish in 1844. The Know-Nothing Party elected 75 congressmen and several governors by campaigning against Irish and German immigrants as crooked voters and politicians but never advanced the nativist cause much further because interests in the South feared it would lead to a ban on slavery. Henry Ford decried the Jews as financial conspirators, and Samuel Morse called the Catholics "agents of the Pope" bent on a religious takeover.

Cultural Isolation

Even though America was never a land of hospitality, it was certainly a land of opportunity. Every major immigrant group quickly matched or outperformed native-born Americans in wages and many went further in school. Virtually all became citizens and many went on to control local politics. There was one exception: Hispanics.

Over the last decade, Hispanics have overtaken blacks as the nation's least-educated, lowest-paid and, after Asians, the fastest-growing minority group. Hispanics owe their low economic station to a variety of disadvantages that include language barriers, cultural isolation, traditional confinement to unskilled or seasonal jobs and frequent trips back to the nearby homeland.

For illegal Hispanics, however, the biggest barrier is the constant threat of deportation. They haven't forgotten the government's brutal "Operation Wetback" of the 1950s, when more than one million Hispanics were rounded up and expelled to Mexico without so much as a hearing in just one year of the campaign. In 1981, after a court ordered the INS to make 145,000 visas set aside for Cubans available to Mexicans, the agency invited 100,000 Mexicans who didn't qualify for permanent-resident status to its offices and gave many deportation orders instead of the visas they had expected. An INS spokesman says the agency "made a conscious decision not to do a roundup of these people," but many Mexicans say the deportation orders only deepened their mistrust of authorities.

Living with this fear has resigned millions of illegals to a docile existence enduring substandard wages and working conditions. It has made them vulnerable to exploitation by crooked "immigration consultants" charging exorbitant fees to fill out routine application forms. And it has made the ill and impoverished afraid to seek public assistance.

Entrenched Underclass

The irony is that studies show illegals pay several times more in state and federal taxes than they receive in total benefits, including payments to the struggling Social Security trust fund that may total upward of $2 billion a year. "We have a stake in keeping them illegal," says Julian Simon, an immigration expert at the University of Maryland. "We rip them off unconscionably."

Yet each day this disfranchised underclass becomes more entrenched in American life. Illegal immigration already accounts for about one-quarter of total U.S. population growth. In the Hispanic metropolis of Los Angeles County, authorities say illegal-immigrant mothers bear about 6% of the newborns in the county hospital system. Illegals have begun moving from seasonal agricultural jobs into year-round, urban employment. And they are buying homes, taking out mortgages and in some areas even starting businesses.

"I feel like my home is here now," says Orlando Ramirez, a 25-year-old Mexican who has been living in a Los Angeles suburb for eight years and who recently started a clothing factory there. "Life is starting to favor me."

Policy planners "haven't even begun to explore all the ramifications" of illegals' permanent settlement in the U.S., says Leo Chavez, a migration specialist at the University of California at San Diego. As a result, illegals are slowly starting to take matters into their own hands, standing up for civil rights to protect their growing stake in the U.S. Advocacy groups sponsor "know-your-rights" workshops that teach illegals how to avoid deportation, how to organize and how to demand what few public benefits they are eligible for. Illegals are even seeking union representation for on-the-job protection that the government isn't giving them. And just this week 200 illegals at a federal detention center in El Centro, Calif., began a hunger strike to protest everything from solitary confinement to inadequate bathing and sleeping facilities.

Court Cases

Increasingly, illegals are taking their case to court, where they are winning one ruling after another. In Los Angeles, they won the right to seek county medical benefits without having to declare their legal status. In Oakland, Calif., illegals succeeded in forcing state universities to admit them at in-state tuition rates. And in Texas, Hispanics pressured school districts to educate their illegal, Mexican-born children and have collected damages from a few recalcitrant employers when injured on the job.

Their efforts to seize rights that Congress has failed to grant them are bolstered by increasingly powerful Mexican-American political and religious groups. And now that Hispanics have begun to move into the Catholic hierarchy as bishops and archbishops, the church is becoming the kind of political vehicle that the Baptist Church became for blacks long ago.

Here in Santa Ana, priests and nuns in the Hispanic ministry of the diocese have helped to organize the indigent rent strikers and earlier this month marched through the blighted barrios of the city to rally more illegals behind the rent rebellion. "Illegals have a stake in our community," says Nativo Lopez, whose *Hermandad Mexicana* (Mexican Brotherhood) advocacy group speaks out for illegals. "And when they're pushed against the wall hard enough, they're going to come out and fight."

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4. Cooperation Against Drug Trafficking

The Narcotics Situation

The narcotics eradication program undertaken in cooperation with the Mexican Attorney General's Office (MAGO) is the United States' largest and had been one of the most successful. Over the last decade, the US has invested more than $125 million in this effort, and the Mexican Government has spent even more. Our contribution ($9.9 million in FY 1985) is primarily for aircraft and maintenance in support of aerial crop eradication, herbicides, fuel and base facilities. The Mexican Army also assists the MAGO with manual eradication operations.

As a result of our joint efforts, the share of Mexican heroin in the US market declined from an estimated 87% in the 1970's to an estimated 34% in 1983. There was a similar dramatic decline in marijuana exports to the US from Mexico.

Beginning about 1983, however, the trend reversed, and drug production in Mexico is increasing sharply. A particularly worrisome development is the spread of a more potent and cheaper form of Mexican heroin (called "black tar") into many areas of the US. Moreover, Mexico is becoming an important staging area for cocaine shipments. In 1985, for example, Mexican officials recorded seven seizures of cocaine in excess of 100 kilograms; in 1984 there was only one seizure of that magnitude.

On February 7, 1985, narcotics traffickers kidnapped and subsequently murdered DEA Agent Enrique Camarena. The involvement of some Mexican police officials in the kidnapping indicated that drug-related corruption was a serious problem. In response, the Mexican Government arrested, dismissed or transferred officials suspected of having ties to traffickers, and reorganized some police elements. Two major traffickers and some of their henchmen have been arrested and charged with Camarena's murder. Other suspects, however, remain at large and the demonstrated ability of the wealthy and ruthless narcotics traffickers to corrupt government officials remains a concern to both the US and Mexican Governments.

To strengthen US-Mexican cooperation in narcotics and other law enforcement issues, Attorney General Meese and his Mexican counterpart, Attorney General Sergio Garcia Ramirez, have met four times since March 1985. The last meeting, in Cancun April 14-15, was especially cordial and productive. There was agreement to reinvigorate the Mexican eradication program, strengthen cooperation in investigations, improve communications between law enforcement personnel and coordinate anti-smuggling operations.

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18 Part I/Tuesday, April 15, 1986 Los Angeles Times

Meese Confers With Mexican Attorney General on Effort to Destroy Drug Crops

By DAN WILLIAMS, *Times Staff Writer*

CANCUN, Mexico—U.S. Atty. Gen. Edwin Meese III met in this Caribbean resort Monday with Sergio Garcia Ramirez, his Mexican counterpart, in a renewed effort to persuade Mexico to wipe out its drug crops.

It was their fourth meeting in 13 months, and it came amid alarming signs of Mexico's resurgence as a major drug supplier to the United States.

Before their talks are concluded today, Meese, Garcia and their staffs are expected to discuss at length a relatively new form of heroin known as black tar.

The drug comes in small dark slabs, is water soluble, cheap and numbingly pure. It appeared last year in 27 American states, an unusual penetration for narcotics from Mexico, and for a while accounted for more than half of all heroin sales in the United States.

Besides representing another frustration in the worldwide effort to keep narcotics from flooding the United States, the black tar experience exemplifies the disappointing result of a yearlong U.S. campaign to persuade Mexico to destroy its drug crops.

Cultivation of the opium poppy, the source of heroin, is increasing in Mexico, as is the cultivation of marijuana.

Over the course of the year in which the attorney generals have been talking, the flow of narcotics from Mexico increased sharply. Privately, U.S. officials in Mexico City and Cancun blame Mexico. They say that jurisdictional disputes, corruption and incompetence have hindered efforts to stem the drug traffic.

Meese, faced with impatience in Congress, is expected to prod the Mexicans to set specific goals for crop eradication.

About a third of the heroin and marijuana used in the United States is produced in Mexico, making Mexico the largest exporter of both to the United States. Because black tar heroin is less refined, it is less expensive than heroin from elsewhere.

Coca, the raw material for cocaine, is not grown here, but traffickers in other parts of Latin America use Mexico for access to the lucrative U.S. market. A third of the cocaine sent into the United States passes through Mexico, law enforcement officials say.

"We're concerned," Justice Department spokesman Terry Eastland said. "We hope to see specific progress."

The talks here will also take up the touchy subjects of arms trafficking, fugitive roundups, frontier smuggling of stolen cars and immigration. Diplomatic language is expected to prevail, but recent reports in Washington suggest rising unhappiness with Mexico's anti-narcotics efforts.

In March, a State Department report called Mexico the "principal disappointment" in last year's worldwide campaign against narcotics.

There was particular concern, the report said, because of "evidence that the once-effective program to eradicate the opium poppy and marijuana has become less effective and that production was rising for both narcotics."

U.S. Customs Commissioner William von Raab, in an unusually direct statement, told a congressional hearing that the Customs Service "is not receiving cooperation from Mexico" in the effort to curb smuggling. He said that the United States has increased patrols along the border but that "with the kind of corruption we have (in Mexico) we would need to put men there every three feet."

Mexican officials contend that they have made great strides in combatting the drug traffic. Newspapers frequently publish reports of massive crop-destruction campaigns by the armed forces and the attorney general's office.

Last December, the Mexican defense secretary, Juan Arevalo Gardoqui, said that 75% to 80% of the country's opium and marijuana crop has been "dismantled." A U.S. official termed the assertion a "fantasy."

Mexico has made sacrifices in fighting drugs. Not long ago, 22 policemen were killed in a shoot-out with a gang of marijuana smugglers in a remote section of Veracruz. Yet, the feeling persists among U.S. officials that as eager as the Mexicans might seem to be, they are less than willing to cooperate fully.

The United States is giving Mexico $9.2 million this year to maintain a fleet of 89 airplanes and helicopters for spraying herbicides over poppy and marijuana fields. In the past decade, about $140 million has been handed over in such aid and equipment.

In 1984, a verification program called Operation Vanguard got under way. It was designed to permit U.S. agents to verify Mexican reports of crop eradication, but U.S. agents were rarely permitted to fly with the Mexicans.

U.S. officials complained that poisons were heavily watered, making the spraying ineffective. Scheduled eradication flights never took place, they said.

Finally, last December, U.S. authorities were allowed to go along on inspection flights, and now the U.S. authorities are said to be satisfied that Mexico is eradicating some crops, though the overall pace of eradication is considered woefully slow.

In recent months, the United States has tried to interest Mexican officials in joining U.S. pilots on surveillance flights along the 2,000-mile border. With a Mexican official on board the radar-equipped planes, U.S. authorities could legally pursue smugglers into Mexico.

Early this month, the Mexican police agreed to fly with the Americans, but only along the U.S. side of the border. Mexico has not given its permission for flights south of the border.

The drug traffickers seem less concerned than ever. According to Customs Commissioner Von Raab, new landing strips and storage warehouses are being built just below the border for quick entry into the United States, and marijuana fields are being improved with sophisticated irrigation systems.

Besides their immediate concern over the flow of drugs, U.S. officials are worried about the long-term implications. They fear that the pattern of lawlessness established by the drug traffic may cause permanent unrest along the border and that the drug traffic could come to finance a guerrilla movement in Mexico as it has in Colombia and Peru.

For many years, Mexico looked on the anti-narcotics drive as something forced on it by the United States. If there were no U.S. market for drugs, the Mexicans argued, then Mexico would not produce or transport drugs.

But recently, several officials have said that although Mexico may not be the source of the problem, the drug traffic will inevitably infect its society.

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Christian Science Monitor, Jan. 23, 1986, p. 1

Drug smugglers shift to Southwest border

Surge in heroin traffic linked to flagging Mexican economy

By Scott Armstrong
Staff writer of The Christian Science Monitor

San Diego

There is growing concern that the Southwest may soon rival Florida as the major conduit for the smuggling of illegal drugs from Latin America into the United States.

A prolonged crackdown on drug smuggling in the Southeast has prompted narcotics traffickers to route their clandestine cargoes through Texas, New Mexico, Arizona, and California. Now the situation has become so bad, say political and law enforcement officials in the region, that even with large infusions of money and manpower they could not put a finger in the drug dike.

"The flow of drugs across our border with Mexico is out of control," said California Attorney General John Van de Kamp at a recent congressional committee hearing here on narcotics. "If present trends continue, there is a real danger that California will contend with Florida for the dubious title of drug capital of the nation."

Among the reasons for concern:

● In the first two months of fiscal 1986 (beginning last Oct. 1), customs officials in San Diego seized more cocaine (131 pounds) than during the entire previous year. A similar pattern of larger and more frequent busts has been reported all along the US-Mexican border.

● Though the flow of heroin has been relatively stable the past few years, recent seizures in California and Arizona indicate trafficking in Mexican "brown and black" heroin is increasing as well. Authorities attribute part of the upsurge to the flagging Mexican economy, which is encouraging increased opium production south of the border.

● There are signs that money laundering connected with the drug trade is shifting from Florida to California. While Miami is still the undisputed seat of illicit drug money, authorities say billions of dollars in profits from narcotics trafficking is being funneled through California banks and other financial institutions.

In recent months two major California banks have been fined by the US Treasury Department for violating the Bank Secrecy Act, a federal law used to ferret out illegal activities by tracking the movements of large amounts of cash.

On Tuesday the Bank of America was fined a record $4.75 million for failing to report 17,000 currency transactions, each exceeding $10,000, between 1980 and early 1985. [See story, Page 6.]

Last August the Crocker National Bank of San Francisco was fined $2.25 million by the Treasury Department for failing to report a large number of transactions.

No criminal charges have been made in either case. But the government did say that Bank of America's failure to report the cash transactions could have impeded investigations into money laundering.

In 1983, California banks reported a $78 million cash deficit. By the end of 1984 that had changed to a $1.5 billion cash surplus — some of which law enforcement officials attribute to the laundering of drug profits. San Ysidro, a small San Diego community that abuts the world's busiest border crossing, has been nicknamed "Little Miami" for its role as a financial clearinghouse for narcotics money.

"There are approximately 100 currency-exchange houses in the San Ysidro area," said William Kolender, chief of the San Diego Police Department, in testimony before a congressional committee. "This has enabled narcotic traffickers to easily exchange thousands of dollars into Mexican pesos and make foreign bank deposits with fictitious beneficiaries."

The hearing here before the House Select Committee on Narcotics Abuse and Control, chaired by Rep. Charles B. Rangel (D) of New York, was one of three held in the Southwest last week to examine the problem of drug smuggling in the region. Other sessions were held in El Paso, Texas, and Tucson, Ariz.

A common theme emerged from the hearings: that law enforcement agencies are losing the war on drugs, despite stepped-up policing, and that a larger commitment will be needed at the federal level to cope with the problem.

Experts cite several reasons for the rise in smuggling activity in the region. One is the overall increase in drug trafficking in general. Another is what some consider a lack of vigilance by Mexico and other Latin American nations in eradicating opium and marijuana fields and dealing with the problem at its source.

Finally, there is the divergence of smuggling activity to the Southwest as a result of the crackdown in Florida. Law enforcement agencies in the region face unusual problems in trying to curb smuggling. Unlike Florida, where much of the contraband arrives in large quantities by air or sea, much of the trafficking in the Southwest is done in small amounts and smuggled across the border overland by individuals using everything from mule trains to motorcycles.

Even smugglers coming in by sea, however, are difficult to nab because there are no natural "choke points" along the Mexican coast, like those in the Caribbean, where police can focus resources.

Texas Gov. Mark White and New Mexico Gov. Toney Anaya urged more involvement by the military in fighting smuggling.

Others called for far greater federal outlays for drug enforcement and prevention programs.

Ultimately, most officials agreed, the only long-term solution to the problem is to educate young people not to use drugs to begin with.

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MAR 19 1986 p. A7

Mexican Corruption Spurring Drug Trade, Says U.S. Official

By Mary Thornton
Washington Post Staff Writer

U.S. Customs Commissioner William von Raab yesterday charged that "corruption and ineptitude" by Mexican law enforcement officials have allowed drug trafficking along the border to increase so much that it poses a "serious national security concern."

Von Raab, testifying before the House Select Committee on Narcotics Abuse and Control, said Colombian dealers are creating the kind of drug-trading zone that existed in southern Florida six years ago, when so-called cocaine cowboys engaged in daytime machine-gun shootouts in shopping centers.

"It is a modern-day horror story," von Raab said. "Smugglers have been building new landing strips in Mexico less than 100 miles south of our border. They are building warehouses to store vast amounts of drugs." The smugglers use small planes to fly to and from the United States, he said.

Leonardo French, a spokesman for the Mexican Embassy, said yesterday that "Mexico has done its best for many years and is firmly determined to continue to do so in the war against drug trafficking, but . . . it is indispensable to attack simultaneously all the links in the chain of this criminal activity, such as production, distribution, transportation, planning, financing . . . as well as to discourage demand and consumption. Most of these links do not have their bases in Mexico."

Yesterday's hearing was not the first time U.S. officials have complained about corruption among Mexican law enforcement officials. John C. Lawn, who heads the Drug Enforcement Administration, has been particularly critical of Mexico's investigation of last year's abduction, torture and murder of DEA agent Enrique Camarena Salazar, who was seized by drug traffickers on a busy Guadalajara street just outside the U.S. consulate.

Von Raab told the panel that Colombian traffickers buy the services of Mexicans to carry the drugs into the United States and to provide protection. "The Mexicans are, in effect, the freight forwarders and security services for Colombian drug-smuggling groups.

"If law enforcement can be so easily bought by drug smugglers, it can just as easily be bought by terrorists," von Raab said.

"This is a terrorist threat by every definition, and if we ever hope to combat this threat to our nation, there must be a significant change in attitude from our southern neighbors," he said.

When committee Chairman Charles B. Rangel (D-N.Y.) said he had assurances from the State Department that "we're receiving top cooperation" from Mexico, von Raab replied, "The Customs Service is not receiving cooperation from Mexico."

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FEB 22 1986 p. A20

Mexico Is Top U.S. Source of Heroin

By Mary Thornton
Washington Post Staff Writer

Mexico has become the largest exporter to the United States of heroin and perhaps of marijuana, according to an annual State Department report on worldwide drug production.

The report by the State Department's Bureau of International Narcotics Matters called Mexico's drug-eradication efforts the "principal disappointment" of 1985. It blame[illegible]related corruption" in Mexi[illegible]increased activities by traffickers.

Mexico's "once-effective opium poppy and marijuana eradication program has become less effective," it said. "The indication at year's end was that Mexico was perhaps once again the leading exporter of marijuana to the United States, and the single largest source of heroin."

It said diminishing government control over drug production was "in part a result of concerted efforts by traffickers to reestablish cultivation sources in Mexico and in part because of an apparent spread of drug-related corruption which has affected every facet of the enforcement program."

It said the kidnaping and murder last year of U.S. drug enforcement agent Enrique Camarena in Mexico highlighted the corruption.

The report, delivered to Congress yesterday, is produced annually by the State Department as an estimate of worldwide narcotics production as well as cooperation of other countries in shutting down the flow of illegal drugs.

Mexico is expected to produce 21 to 45 metric tons of opium in 1986, the same as last year, compared with 21 tons in 1984 and 17 tons in 1983, the State Department found.

Mexican marijuana production is expected to be as much as 3,000 tons again this year, as in 1985 and 1984. In 1983, before the major eradication efforts, it was 4,975 tons.

The report said Colombia, "once viewed as one of the most difficult countries in narcotics control," destroyed 85 percent of the marijuana grown in its northern coastal area, a major growing site. It praised Colombia, Jamaica and Belize for their combined eradication of more than 4,400 tons of marijuana during 1985. Fourteen important drug-producing nations are actively destroying drug crops, compared with two countries four years ago, the report said.

Federal law prohibits continuation of foreign aid to countries judged by the president to be making inadequate progress toward stopping narcotics production. But no drug-related cutoff has ever been instituted, and there is no mention of such a possibility in the latest report.

"The fact remains that worldwide production of illicit opium, coca leaf and cannabis [marijuana] in 1985 was still many times the amount currently consumed by drug abusers" in the United States and elsewhere, it said.

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FEB 9 1986

50 tied to drug agent's death keep friends in high places

By Vincent J. Schodolski
Chicago Tribune

MEXICO CITY—It was a sunny February afternoon one year ago when Enrique Camarena Salazar, a top field agent for the U.S. Drug Enforcement Agency, quietly entered a waiting car in the Mexican city of Guadalajara.

He apparently knew and trusted the police officers who were inside the car and willingly joined them on that afternoon of Feb. 7, 1985. It was the last time Camarena was seen alive.

A month later, his mutilated body was found in a plastic bag on a ranch 60 miles from where he was abducted. So was the body of Mexican pilot Alfredo Zavala, who had flown missions for the drug agency. The two had been tortured before being killed.

A year later, sources close to the investigation say that at least 50 people intimately involved in the crime still are at large and under the protection of Mexican officials.

The sources said the governors of at least two and possibly three Mexican states are involved in protecting these people.

"Their involvement has been to shelter a fugitive from justice," said one source. "There are a few important electoral posts where people are being allowed to live out their terms to avoid embarrassment."

Despite these problems, U.S. officials said progress has been made in finding and arresting those thought to have been the masterminds of Camarena's slaying.

"In the year since he was kidnaped, tortured and killed, we have seen some progress in the prosecution of the case," U.S. Ambassador John Gavin said. "But until all the authors of the crime—actual and intellectual—are brought before the bar of justice, we cannot rest."

Enrique Camarena Salazar: DEA agent was abducted, tortured and murdered for his attempts to stem the flow of cocaine from Mexico.

Rafael Caro Quintero: Well-connected drug kingpin suspected of having decided that Camarena was the man to be killed.

Forty-seven people are now in jail. Among those under arrest, although not yet brought to trial, is Rafael Caro Quintero, the drug kingpin who is suspected of having decided Camarena was the man to be killed. Also under arrest is Ernesto Fonseca Carrillo, thought to have assisted Quintero in planning Camarena's murder.

"At some point, Caro Quintero said, 'Let's get him, that's the guy,' " a source said.

"They thought he [Camarena] had the key to the puzzle," the source said in reference to the work Camarena was doing to track down the key figures in the dramatically increasing flow of cocaine from Mexico to the United States.

U.S. officials estimate that in the last three years, the supply of cocaine from Mexico has gone from zero to between 33 and 36 percent of all the cocaine sold in the U.S. During the same period, Mexico has increased its share of the marijuana market from 30 percent to 40 percent. They said the country supplies about 30 percent of the heroin sold in the U.S.

Corruption appears to be at the heart of both the drug trade in Mexico and the system that protects narcotics traffickers.

Although he has been in a high-security jail in northern Mexico City since last April, it appears Quintero's wealth has enabled him to live a comfortable life.

On Jan. 11, under circumstances that still are unclear, guards raided Quintero's cell and found gold Rolex watches, high-quality cowboy boots, a color television, jewelry, stereos, clothing and at least $600,000 in cash. Three guards have been suspended under suspicion of having provided the drug baron with the luxuries.

Rep. Charles Rangel [D., N.Y.], after a recent visit to Mexico, reported he had been told Quintero was seen dining in fancy Mexico City restaurants on numerous occasions since his arrest. Once, the congressman said, he was seen celebrating his birthday at a dinner in the company of top Mexican officials.

Four airplanes owned by Quintero have been seized by Mexican officials along with some of the 300 ranches he owned around the country, as well has the multimillion-dollar home he was building near Guadalajara.

Among those suspected of masterminding the Camarena murder who still are at large are Miguel Felix Gallardo, the king of the country's cocaine industry and thought to be the brain behind many of Quintero's actions; and Manuel "Crazy Pig" Salcido Uzueta, a hit man for the drug barons.

It is believed that the vast sums of money Gallardo has available is buying his freedom. Sources involved in the investigation said Gallardo frequently has been seen in a number of Mexican states, apparently operating freely thanks to the protection of high officials.

One source said the common approach by drug traffickers to officials is, "What would you like—gold or lead?" Most, the source said, choose gold.

Many officials suspected of being involved in the Camarena case or in the drug trade have been fired or have disappeared.

About 700 federal police officials have been fired since the investigation began. Scores of military officials have been reassigned in moves thought to be related to their involvement in the drug trade.

A top government official, removed from his appointed post supposedly to run for elective office, reportedly flew to Spain. Although he was listed on the flight manifest, he was not on the plane when it reached Europe.

Sources said that no federal officials appear to be involved in the Camarena case, but state-level officers appear to be deeply implicated. Though federal officials have in many cases given orders for investigations or arrests, those orders have not been carried out on the state level, sources said.

Asked why the Mexican government has not done more to expose those thought to be part of the crime, a source said, "We assume that part of the problem is that it [corruption] is so deeply entrenched in certain areas that there is a fear among certain people that by taking off the lid, you will open a Pandora's box."

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The Washington Times

U.S., Mexican officials in word war over drugs

By John McCaslin
THE WASHINGTON TIMES

Mexican officials, who had hoped last week's visit by the House Select Committee on Narcotics Abuse would lead to expanded cooperation, this week angrily denied charges that corruption is a major problem in curbing drug trafficking.

After the bipartisan fact-finding delegation returned to the United States, Rep. Charles Rangel, New York Democrat, said corruption was so ingrained that drug kingpin Rafael Caro Quintero, accused in the kidnap-slaying of U.S. Drug Enforcement Administration agent Enrique Camarena, "frequently" leaves prison to dine in restaurants.

That brought an angry denial from Mexican Attorney General Sergio Garcia Ramirez, who called the charges "absurd and fantastic" lies.

In a statement issued by his office, Mr. Garcia said, "If he [Mr. Rangel] has proof of such a situation occurring, he should give it to us."

"In Mexico, we did receive a lot of commitment, a lot of sincerity of purpose," said Rep. Frank Guarini, a New Jersey Democrat, shortly after the delegation returned to Andrews Air Force Base Sunday. "But certainly [they were] short on performance. We expected more from the Mexicans."

Mr. Rangel warned that unless Mexico tackles its corruption problem increased U.S. funding for Mexico's drug eradication programs may not materialize. The United States has given Mexico some $140 million in the past decade to fight drug trafficking.

"President Reagan has offered more assistance," Mr. Guarini said, "but he wants to see guarantees of efficiency and wants to see the corruption lessened."

In a meeting earlier this month, Mexican President Miguel de la Madrid had told Mr. Reagan that Mexico was doing all in its power to assist in the drug battle, including weeding out corrupt officials.

The congressional visit was expected to expand the "spirit of cooperation" between Mexico and the United States, according to Mr. de la Madrid.

To provide the congressmen "with a better appreciation for the complexities of the drug problem and Mexico's own efforts to wage the war against drugs," Mr. de la Madrid arranged for the House delegation to travel to the northern city of Culiacan, in the state of Sinaloa, to witness a joint marijauna and poppy plant eradication operation by the Mexican army and the Mexican attorney general's office.

Mr. Garcia, meanwhile, provided updated statistics for the congressmen:

- In 1984, 34 members of the Judicial Police and Mexican army and navy were killed while eradicating drugs. In 1985, that number rose to 54.
- Since 1982, 8,239 acres of opium poppies, used in the production of heroin, were destroyed. In 1985, the acreage destroyed rose to 16,168 — an increase of 95 percent.
- Since 1982, 7,375 pounds of cocaine have been confiscated. Of this total, 5,636 pounds were confiscated in 1985 alone, representing an increase of almost 500 percent over 1984.
- Since 1982, over 39,000 drug-related arrests of both Mexicans and foreign persons have been made by Mexican authorities, resulting in over 20,000 indictments. More than half this total occurred in 1984 and 1985.

Despite congressional criticism of Mexico's anti-drug efforts, the U.S. Embassy said, "We are pleased with the cooperation we have been getting at the highest levels [of the Mexican government] and will continue working together to [get] rid [of] the drug problem."

Meanwhile, in a related development, a Spanish court yesterday ruled that a man alleged to be Colombia's top cocaine trafficker can be extradited to the United States.

Jorge Luis Ochoa, 36, is the reputed leader of a ring said to control about 80 percent of Colombia's $2 billion-a-year cocaine trade. He is accused of smuggling cocaine into the United States with the aid of the Nicaraguan government.

The court yesterday reversed an earlier order denying the U.S. extradition request on the grounds that it was politically motivated.

The previous ruling had ordered Mr. Ochoa, 35, extradited to Colombia, where he is wanted on charges of cattle robbery and using a false identity card.

It was not immediately known whether he would appeal the extradition order, which must still be ratified by the government.

Mr. Ochoa was arrested in Spain in November 1984.

This article is based in part on wire service reports.

President Miguel de la Madrid

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Washington Times, January 23, 1986, p. 1A, 8A

U.S. agent slain on order from Mexican police

By Jerry Seper
THE WASHINGTON TIMES

PHOENIX — The order to kill Enrique Camarena Salazar, an agent of the U.S. Drug Enforcement Administration, was made last February by high-ranking Mexican Federal Judicial Police officials fearful they were about to be exposed as being on the payroll of Mexican drug traffickers, DEA sources say.

The officials, according to the sources, also were concerned that the veteran DEA agent had discovered and was ready to report that much of the $140 million in drug eradication money funneled into Mexico by the United States over the past 10 years had been misappropriated.

"It's clear to us now that Kiki [Camarena] had some very sensitive information involving a lot of high-ranking officials and that he was ready to deliver it when he was snatched off the street and murdered," said one DEA official. "Doing his job and doing it well cost him his life."

Leonardo French, a spokesman for the Mexican Embassy in Washington, said yesterday that he had no information concerning the allegations, but said that corruption was not a problem unique to Mexico.

"Corruption in this case exists on both sides of the border," he said without elaboration. "We're talking about extremely wealthy, interna-

see **POLICE**, *page 8A*

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tional crime organizations that have billions of dollars to spend."

Mr. French said that President Miquel de la Madrid has targeted alleged government corruption by drug dealers in Mexico as a "major concern" of his administration and has suggested the creation of an international task force to combat it around the world.

Mr. Camarena's body was found March 5 in a shallow grave some 70 miles south of Guadalajara, along with the body of his friend, Alfredo Zavala Avelar, a contract DEA pilot. Both men had been kidnapped Feb. 7 off separate Guadalajara streets. Autopsy reports show they had been brutally beaten and tortured.

Federal Judicial Police officials in Mexico City, who coordinated the Camarena-Zavala murder investigation, have said that the two men were killed by angry drug dealers who had lost millions of dollars in profits because of raids staged by Mr. Camarena on marijuana and cocaine operations throughout Mexico. Mr. Zavala had participated in a number of the raids.

Mexican police officials claimed the dealers targeted the two men for assassination shortly after a November 1984 raid in the state of Chihuahua, in northern Mexico, during which nearly 10,000 tons of marijuana, worth about $10 million on the street, reportedly were destroyed. The marijuana was owned by Rafael Caro Quintero, a leading Mexican drug dealer who later was charged in the killings.

The sources said, however, that the raid was orchestrated by Mexican federal police who wanted to falsely convince U.S. authorities that they were doing something about drug eradication in that country. They said a deal had been struck between Mexican authorities and various Guadalajara-based drug dealers and the marijuana crop was "sacrificed" on the promise that other operations would not be touched. The sources also charged that the 10,000-ton figure was "highly exaggerated" and less than 1,000 tons actually were destroyed.

The sources, who spoke only on the condition they not be identified, said a DEA investigation into the killings concluded that the murder conspiracy also involved members of the Jalisco State Police in Guadalajara and various high-ranking Mexican political leaders, whom they would not identify.

"We have established beyond a doubt that corruption is a way of life in Mexico and that no one is exempt from it, from the lowest public servant to those in very high places," said one DEA agent. "There is evidence to show that drug bosses in Mexico were paying bribes at the highest levels of government."

DEA officials said Mexican federal police scheduled a secret meeting with drug dealers in Guadalajara after the Chihuahua raid to work out details of what they described as a "public relations program" to convince U.S. officials that U.S.-financed drug eradication programs were in place. The police and the traffickers, according to the DEA, had become threatened by increased pressure from U.S. officials to arrest and convict traffickers, and by the growing presence of DEA agents throughout Mexico.

The traffickers, according to the DEA, wanted Mexican federal police to delay any public crackdown for at least six months to give them time to relocate their bases of operation and to change delivery routes.

"There's no doubt that some Mexican federal police officers were working hand-in-hand with the traffickers," said one DEA agent. "There was a significant exhange of information and, of course, money."

Mr. Camarena, a 10-year DEA veteran, was kidnapped as he hurried down a side street near the U.S. Consulate in Guadalajara to keep a 2 p.m. luncheon date with his wife. A few hours later, Mr. Zavala also was abducted off a Guadalajara street.

DEA officials have identified the abductors as Victor Manuel Lopez Razon, commander of the homicide division of the Jalisco State Police, and his second-in-command, Benjamin Locheo. Both have been questioned by Mexican authorities but neither has been charged.

"Kiki would never have gone to the car if he hadn't recognized the occupants," said one official at the U.S. Consulate in Guadalajara. "He was a careful man."

Mr. Camarena and Mr. Zavala were taken to a Guadalajara-area ranch owned by Mr. Caro Quintero, where they were beaten and tortured, according to U.S. authorities. The next day, their battered bodies were dumped into shallow graves in a nearby forest area known as La Primavera. Later, however, they were dug up and reburied at an abandoned ranch south of Guadalajara.

The bodies, tied at the ankles and wrists, were found by a peasant. Both men had been wrapped in sheets and covered with plastic.

A grim account of the last hours of life for the DEA agent and his friend is contained in the sworn statement of an alleged accomplice in the killing, Francisco Javier Tejeda Jaramillo, 32, of Guadalajara. The statement was obtained by police authorities in Tijuana, where Tejeda Jaramillo was arrested in connection with the killings.

He told authorities that after the DEA agent and his pilot were kidnapped, they were taken to one of Mr. Caro Quintero's ranches near Guadalajara where they were "brutally beaten and kicked around" for several hours. At one point during the beatings, he said, Mr. Camarena was asked how Mr. Caro Quintero and two of his associates, Ernesto Fonseca Carillo and Miguel Angel Felix Gallardo, were listed in DEA files. The agent replied, according to Tejeda Jaramillo, that the three men were classified as "dangerous drug traffickers."

That, according to Tejeda Jaramillo, was when Mr. Caro Quintero ordered the two men killed. He said Fonesca Carillo and Mr. Felix Gallardo agreed.

"I was told to carry the bodies of Camarena and Zavala to the trunk of a car," Tejeda Jaramillo told Tijuana police. "The two men were still alive, but their mouths and noses were bound tight with adhesive tape."

Tejeda Jaramillo told authorities that another alleged accomplice, identified as Julian "The Monkey" Alvarez, then was ordered by Mr. Felix Gallardo to kill the two men.

"The Monkey took a tire iron and hit Camarena and Zavala sharply over the head until he cracked their skulls," Tejeda Jaramillo said.

Mr. Caro Quintero and Mr. Fonseca Carillo were indicted by Mexican authorities in the killings in April. Mr. Felix Gallardo also was named as a suspect, but remains a fugitive. Nine other men suspected by the DEA in connection with the murders, including some Mexican federal and state police officers, have never been arrested or charged. Some have never even been questioned.

According to the DEA, some of the nine have been identified by eyewitnesses as having participated in the brutal murders and that information, they said, was passed by the DEA to Mexican federal police. The sources said Mexican authorities have claimed that they have not been able to locate all nine men for questioning. However, the sources said, some of them have been interviewed by the DEA and four of them still reside in homes they had at the time of the killings.

The indictments of Mr. Caro Quintero and Mr. Fonseca Carillo came only after U.S. authorities — particularly the DEA — pressured Mexican federal police to act. Leading the charge was Francis Mullen, former DEA director, who reportedly was outraged by the murder of one of his men and, according to an associate, "pounded his fist on several desks in high places to get action."

It is not known, however, when the two men will be scheduled for trial, if ever. The sources said that much of the evidence collected by the DEA and Mexican police in connection with the murder has "disappeared." The evidence, the sources said, included ropes, cloth and scraps of the sheets used to wrap the bodies. Other evidence, which was not identified, was ordered destroyed in October by a state judge in Guadalajara.

"We question how serious Mexican officials are when they tell us they are looking for justice in this matter," said one DEA agent.

Shortly after the bodies were discovered, Jalisco State Police officials began what they described as "an extensive investigation" into the murders. Jalisco State Police Commander Gabriel Gonzalez Gonzalez was assigned to head the probe. When DEA agents in Guadalajara complained, however, that Mr. Gonzalez Gonzalez was on Mr. Caro Quintero's payroll, he was summoned by federal police officials to Mexico City for "questioning."

Three days later, Mr. Gonzalez Gonzalez died. Federal police said he suffered a hemorrhage of the pancreas during interrogation. His death certificate shows that he died of "natural causes."

Meanwhile, Mr. Caro Quintero and Mr. Fonseca Carillo continue to conduct their drug trafficking operation from their jail cells. Additionally, as reported this week in The Washington Times, Mr. Caro Quintero often is released to attend "special events," including birthday celebrations and parties at fancy restaurants.

Mr. Caro Quintero, 35, fled Mexico after the killings and took refuge in a mansion in Costa Rica. His escape out of Guadalajara, according to the DEA, was aided by Mexican federal police who escorted him to the airport and guarded the runway as his plane took off. He was tracked by DEA agents, arrested at his Costa Rica hideout and turned over to Mexican authorities for prosecution. He currently is being held at a Mexico City jail pending a trial date.

He also has been indicted in connection with the murders of two other Americans, John Walker, 36, of Roseville, Minn., and Alberto Radalat, 32, of Fort Forth, Texas. They were beaten and stabbed to death in January 1985 at a Guadalajara restaurant owned by Mr. Caro Quintero. He allegedly ordered the two men killed because he throught they were DEA agents.

Idolized in comics and magazines in Mexico as a modern-day Robin Hood, Mr. Caro Quintero is said by U.S. authorities to have amassed $500 million in drug trafficking profits in the past five years. According to officials at the U.S. Consulate in Guadalajara, he smuggled $1 million worth of cocaine into the United States daily for more than a month during one major operation last year. He reportedly transferred more than $50 million from various banks in Mexico to banks in Europe shortly after the Camarena-Zavala killings.

Mr. Caro Quintero is said to own more than 30 houses in Guadalajara and 350 ranches throughout Mexico, plus numerous businesses and corporations.

Mr. Fonseca Carillo, 60, was charged in the killings after an "accidental" arrest, according to U.S. authorities. He was picked up by Mexican police following a shootout at a house in Puerta Vallarta, but not charged in the Camarena-Zavala killings until after a DEA agent, who happened to be at the Puerto Vallarta jail, spotted him three days later.

The shooting involved two alleged armed robbery suspects who reportedly fled to the house after robbing a bus station. Twenty-two men were arrested in the incident, including two federal police officers and one state policeman. The house belonged to Candelario Ramos, police commander of a nearby town and a former member of the Jalisco governor's security force.

Referred to by U.S. authorities as the former "king of heroin," Mr. Fonseca Carillo reportedly has a net worth of $3 billion. He gained much of his fortune during the early 1970s when he established Mexican brown heroin smuggling routes into the United States. At one time, U.S. authorities said, he was responsible for about 30 percent of the heroin moving into America from Mexico.

Mr. Felix Gallardo, 39, is said to be worth millions of dollars and is believed by U.S. authorities to be one of the kingpins of the Mexican drug business. Some DEA officials believe he is the "boss of bosses" of the drug syndicates now operating in Mexico. U.S. authorities said Mr. Felix Gallardo is involved in the importation of about $30 million worth of cocaine a month into the United States.

He reportedly owns dozens of businesses and houses in the Guadalajara area and has set up other corporations throughout Mexico. Last year, he received rave press reviews in Mexico when he donated $20,000 to the Red Cross.

Mr. Felix Gallardo also is a prime suspect in the Camarena-Zavala killings and is being sought by Mexican officials for questioning. He has, however, not been located since he fled the country shortly after the murders, despite numerous leads given to federal police authorities by DEA agents in Mexico.

He reportedly heads an organization loosely known as the Padrino syndicate, a secret society of drug dealers with headquarters in Guadalajara. The syndicate operates throughout Mexico, Colombia, Honduras, Peru and the United States.

The Padrino organization, according to U.S. authorities, commands an army of followers and has assets estimated to be in excess of $15 billion. The organization has been linked to more than 300 killings in the past five years, including Mexican policemen and government officials, other drug dealers and their associates, innocent bystanders and at least seven Americans.

The syndicate, according to U.S. authorities, pays millions of dollars in bribes annually to Mexican federal officials.

"It used to be that the Mexican government was corruptible, that there were individuals in it who could be bought," said one official at the U.S. Consulate in Guadalajara. "But now, corruption is the system."

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Baltimore Sun, June 5, 1985, p. 5A

Drug links spur Mexico to revamp security force

By James Bock
Mexico City Bureau of The Sun

MEXICO CITY — Mexico has announced sweeping changes within its Federal Security Directorate (DFS), an FBI-style police force that has been linked to the protection of major drug traffickers.

The announcement late Monday night came a week after the ruling Institutional Revolutionary Party (PRI) suffered the political embarrassment of dropping the former chief of the DFS from its slate of congressional candidates in next month's midterm elections.

The Mexican Interior Ministry said in a statement that 427 DFS agents have been fired (from a force of about 2,000), 19 of 31 area commanders demoted or dismissed, and the deputy directors replaced.

However, the ministry — which is responsible for domestic affairs, including elections — said it had no evidence that former DFS chief Jose Antonio Zorrilla Perez was guilty of criminal wrongdoing.

The 14-page statement said only that Mr. Zorrilla was guilty of "administrative inefficiency" for not having controlled the actions of the dismissed agents and commanders.

Mr. Zorrilla resigned March 1 as DFS commander in order to become a PRI candidate for the federal Chamber of Deputies. But late last month, the PRI dropped him from its slate without explaining why. Mr. Zorrilla apparently has since gone into hiding.

The Interior Ministry said it had no evidence to support charges that captured drug traffickers Rafael Caro Quintero and Ernesto Fonseca Carrillo carried DFS credentials signed by Mr. Zorrilla.

Two DFS agents were captured with Mr. Fonseca in Puerto Vallarta," however, and two DFS commanders are charged with "illegitimate enrichment" from their links to the drug trade, the ministry said.

President Miguel de la Madrid Hurtado has made "moral renovation" a cornerstone of his 2½-year-old administration. But the legacy of massive corruption in the previous administration and the evidence of present venality brought to light by this spring's drug scandals appear to have strengthened the opposition National Action Party.

Mr. de la Madrid left yesterday on a five-country tour of Western Europe, which is receiving widespread publicity here. The presidential swing is expected to bolster the PRI in the July 7 vote, although government spokesmen deny the trip is politically motivated.

The government also announced this week an 18 percent increase in the minimum wage. The boost, which does not keep up with the 19 percent rise in the cost of living in the first four months of the year, is viewed as a government effort to keep the lid on inflation.

In a final politically favorable announcement, Mexico named its first astronaut, Rodolfo Neri Vela, 33, a professor at the national university who earned his doctorate in England.

Officially, he is merely a "passenger" on a U.S. space shuttle flight that will put a Mexican satellite in orbit in November, but the Mexican press won't take that designation sitting down. One newspaper already has dubbed him the first "Mexi-cosmonauta."

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With 22 Dead, the Police Showed Some Failings Last Week

Contact/La Jornada/Heron Aleman

Mexican policemen removing the bodies of officers killed by drug dealers in a remote region of the state of Veracruz last week.

The Mexican Drug War Gets Red Hot

By WILLIAM STOCKTON

MEXICO CITY — The stakes in the Mexican Government's war against illegal drugs destined for the United States were raised substantially last weekend with the killing of 17 police officers and five other members of an anti-drug group who were on a night mission in a remote region of the Gulf Coast state of Veracruz. They were apparently killed by a large band of drug traffickers armed with high-powered automatic weapons after the police discovered a cache of marijuana.

"This is the answer of the drug traffickers to the permanent campaign against drug trafficking," said Francisco Fonseca Nortario, official spokesman for Mexico's Federal Attorney General, who oversees the Government's campaign against illegal drug traffic. "The traffickers were making a statement. They were saying, 'This is what we are going to do if you come in against us.'"

United States diplomatic sources here echoed that assessment. "This could mean the rules of the game are changing here," one diplomat said. "If the drug traffickers raised the ante by killing that many police, they have to expect retaliation. It puts an impetus on the Mexican Government for revenge."

Last fall, Mexican officials raided a large operation in the northern state of Chihuahua, near the United States border, and confiscated 10 tons of marijuana, one of the largest seizures they had ever made. They found a highly mechanized farm that provided clear evidence of the organizational abilities and resources available to Mexican drug traffickers.

Then in February, an agent of the United States Drug Enforcement Agency and his Mexican pilot were kidnapped in Guadalajara. Their bodies were found in March, showing signs of torture. The Reagan Administration reacted angrily, temporarily closing border crossing points with Mexico and placing heavy pressure on President Miguel de la Madrid to get tough.

Rafael Caro Quintero, described as a Guadalajara drug chief, is now in jail in Mexico City, accused of the abduction and murder of the drug agent and pilot and awaiting trial.

Subsequent investigation by Mexican officials also uncovered evidence of considerable corruption among the police agencies involved in combating drug traffic. Through the spring and summer, there were wholesale dismissals and transfers of federal police officers and a reorganization of the campaign against drug trafficking.

Better Relations

United States officials in both Washington and Mexico City have said they are pleased with the effort the Mexican Government is making both in increasing its overall effort and in cracking down on corruption. Relations between the two countries on the drug question, the officials say, are greatly improved.

"There is no question about the commitment at the highest levels of the Government," an American official said. "I think the Mexicans have a very good team in place at the very top in their anti-drug campaign. They work well together. They are committed. They are accessable to us."

But what happened in the remote area of southern Veracruz state, a rugged and fertile region ideally suited for marijuana cultivation, has sent shock waves of fear through Mexican drug agents and revealed the extent to which they are ill-equipped to deal with the apparent strength and financial resources of the drug groups.

Although the precise events in the early morning hours of Nov. 1 still are not clear, Mexican officials say there are indications that the 17 police officers and five other men who worked for the police as informants and guides were drawn into a trap, then massacred.

Two survivors were reported to be under intense interrogation last week as investigators tried to learn what happened and why. Enough seems to be known to cause Mexican officials to reassess their operational methods. Often, Mexican drug agents have preferred to capture illegal drugs, but avoid confrontation with traffickers. Diplomatic sources say federal judicial policemen, from whose ranks the Attorney General's drug agents are taken, carry only a few rounds of ammunition for their weapons.

The policemen who were killed were not in communication with their headquarters and could not summon help. Moreover, they apparently switched their plans in the middle of an operation without telling anyone.

Beyond the presumed failings of the agents, Mexican authorities pose a problem of financial resources. A senior official in the Interior Ministry said last week that the problem is growing too rapidly for the Mexican Government to cope with it on its own.

"I think we are going to need more help than we are at present getting," he said, indicating that it should come from the United States. In the last fiscal year, Washington contributed $10 million to controlling the Mexican drug traffic.

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Los Angeles Times

2 Nations Stymied in Efforts to Shut Off Flow

Mexico a Funnel for U.S.-Bound Cocaine

By DAN WILLIAMS, *Times Staff Writer*

MEXICO CITY—For an alleged cocaine smuggler charged with murdering a Mexican policeman, Jose Contreras Subias lived pretty well in Tijuana's municipal prison.

According to U.S. sources, he occupied an entire floor of the prison, made cocaine deals freely and kept a bank account in nearby La Mesa de Otay.

When he escaped Oct. 25, according to Mexican authorities, he left in a prison van, under police escort. It was three days before anyone outside the prison knew that he had escaped.

Seven guards and the warden have been charged with helping Contreras Subias escape. According to press reports, the guards were paid $14,000 each, the warden $30,000.

The case is another frustrating setback in the effort by Mexican and American officials to end Mexico's role as a funnel through which a flood of cocaine pours into the United States.

20 Tons From S. America

U.S. Embassy officials here estimate that about 20 tons of cocaine from South America were smuggled through Mexico into the United States last year. This accounted for about 20% of the drug sold in the United States, and it made Mexico the top cocaine transshipment point for the U.S. market.

The physical difficulties of stemming the flow are formidable. For one thing, the Mexican-U.S. border is about 2,000 miles long. Corruption, danger and jurisdictional squabbles between the two countries combine to further frustrate the effort.

Recent Mexican attempts to obstruct the cocaine traffic, with U.S. support, have produced mixed results.

Last spring, important cocaine traffickers were jailed—Contreras Subias among them—after Enrique S. Camarena, an American narcotics agent, was tortured and killed. The gangs appeared to be in disarray, and cocaine shipments declined, according to embassy officials.

Back to Previous Volume

Since then, however, the smugglers have regrouped, traffic is back to its previous volume—and the level continues to rise.

Cocaine is the latest addition to Mexico's wide range of smuggled illicit drugs, joining marijuana, heroin and pills of all sorts. Marijuana and the opium poppy, the source of heroin, are both grown in Mexico; coca, the source of cocaine, is not. Partially successful campaigns to destroy marijuana and opium poppy crops have converted the trade in South American cocaine into a major alternative to other drug activities here.

According to a recent report by the U.S. Drug Enforcement Administration, the traffic "began as a byproduct of the opium and marijuana eradication efforts." The report goes on to say that smugglers from Latin America were forced to look for new routes to the United States as anti-cocaine campaigns in the Caribbean made it riskier to ship by air and sea into the American Southeast.

Advantages for Smugglers

Mexico offers plenty of advantages for smugglers—in the air and on the ground. It is estimated that there are 2,400 airstrips in the country, and the long border, from the Gulf of Mexico to the Pacific, is all but impossible to seal.

Smuggling of goods across the border is nothing new. Everything from immigrants to money goes north, while appliances and other consumer goods flow south.

As in all the smuggling activity, bribery—what Mexicans call *la mordida*, "the little bite"—is an integral factor. With cocaine, the bite is big. Cocaine sells for between $35,000 and $50,000 a kilogram (2.2 pounds) wholesale in the Los Angeles area.

U.S. observers consider that widespread corruption hampers the effort to cut off the flow of drugs from Mexico. As a recent report of the House Foreign Relations Committee put it, "It is clear that corruption is the single biggest obstacle to effective anti-narcotics efforts in Mexico."

Aura of Keystone Kops

The apparent cooperation between corrupt officials and drug traffickers has produced incidents reminiscent of the Keystone Kops.

After Camarena's slaying, U.S. officials here asked the Mexican police to detain Rafael Caro Quintero, a known figure in the narcotics traffic. Caro Quintero was sighted at the Guadalajara airport, guarded by his own men and by local police, and his plane took off without incident. Later, Caro Quintero was picked up in Costa Rica and deported to Mexico along with several collaborators, among them Contreras Subias.

Mexican authorities bristle at charges of corruption and throw the accusation back at U.S. officials. "How is it that the drugs so easily cross the border?" a Mexican drug agent asked rhetorically. "There must be corruption on the other side."

Mexican authorities point with painful pride to the number of their narcotics agents and soldiers killed in various anti-drug campaigns—more than 100 in the last year alone.

Criticism Is Tempered

Mexico's interest in controlling drugs has varied over the years. At first, U.S officials were disappointed with the effort put forth by the administration of President Miguel de la Madrid, but recent shake-ups in the attorney general's office and raids spearheaded by the armed forces and federal police have tempered the criticism.

Mexico's concern, prompted in part by U.S. pressure, also reflects a domestic problem. Drug use among young Mexicans is on the rise, although cocaine is a relatively minor factor compared with marijuana and pills.

Also, the wealth and power of drug runners is impinging on government influence in some parts of the country. The bald use of police as security guards by drug operators, the increasing investment of drug money in legitimate businesses, the embarrassment of having large drug plantations under the nose of local officials—all this has led to concern about the emergence of a narcotics state within a state.

Stern Official Words

"In Mexico, there is no force stronger than the state, and there is no place where the state will permit drug traffickers to exercise control," Jesus Sam Lopez, head of the Mexican Narcotics Control Bureau, told a reporter in an interview last spring.

U.S. pressure on the Mexican government takes several forms and, in some instances, has wounded Mexico's nationalistic pride. After the Camarena killing, U.S. Customs inspectors slowed all border movement in an effort to prod Mexico into action.

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Mexico Accuses 2 Former Security Chiefs Over Amassed Wealth; 427 Agents Fired

By JUAN M. VASQUEZ, *Times Staff Writer*

MEXICO CITY—In a widening scandal involving the narcotics traffic, the Mexican government has accused two former zone commanders of the powerful Federal Security Directorate of amassing apparently illegal fortunes, fired 427 of the agency's 2,200 agents and replaced 19 of its 31 state directors.

In addition, the immediate past director of the force is believed to have fled the country.

The credentials of all members of the directorate have been seized, the Ministry of Government declared, and new ones are being issued in an effort to "renew and restructure" the elite police agency.

Founded 40 years ago, the influential directorate is responsible for both political intelligence and surveillance. Its role combines some functions similar to those of the CIA and the FBI, although its activities are confined to domestic matters. Like its U.S. counterparts, it is known by its initials, DFS in Spanish.

Plainclothes DFS agents rarely come into contact with average Mexican citizens or foreign visitors, but they are widely feared because of the semi-secret nature of the organization and its reputation for dealing harshly with suspects.

For years, some U.S. investigators have believed that DFS agents were participating in the narcotics traffic or, at the very least, had intimate knowledge of it. But no proof could be obtained.

The suspicion was based in part on the premise that no important illegal activity within Mexico could escape the attention of the powerful police agency.

In the aftermath of the kidnaping and murder of U.S. narcotics agent Enrique S. Camarena in February, the DFS became ensnared in controversy. Some agents were accused of acting as bodyguards for figures in the narcotics trade. Others were accused of protecting drug shipments.

Many of the police officers implicated in the narcotics traffic after the Camarena case erupted were members of either the state or federal judicial police forces, which are also undergoing a house cleaning. The involvement of the Federal Security Directorate did not become clear until later.

Credentialed Criminals

Investigators said that many of the criminals under arrest in the Camarena case carried real or false DFS credentials, or identified themselves as DFS agents. A judicial police commander, now in jail, said he allowed narcotics trade kingpin Rafael Caro Quintero to flee Mexico because he claimed to be with the agency.

In a lengthy statement issued this week, the Ministry of Government acknowledged that two DFS agents who were captured with a drug traffic boss have been jailed on charges of working for the suspected criminal. Another DFS agent is being held for his suspected involvement in protecting a huge marijuana farm in Chihuahua state that was raided by authorities last November.

Three others remain under investigation for suspected complicity in unspecified illegal activity and have been dismissed from the DFS, the government said. But it denied that bogus DFS credentials are in wide circulation.

Most of the 427 discharged agents were removed because they did not meet the proper requirements, according to the government.

The latest blow to the prestige of the DFS came with the disclosure Wednesday that Rafael Chao Lopez and Daniel Acuna Figueroa, both of whom are former zone commanders of the directorate, are under investigation for "inexplicable enrichment."

The charges were lodged against them by the office of the controller of the federal government, a Cabinet-level agency created by President Miguel de la Madrid to implement his heralded "moral renovation" program, the results of which have been disappointing to many.

The two ex-commanders are believed to be the first figures against whom De la Madrid has used legislation written by former President Jose Lopez Portillo designed to make it tougher for public officials to steal.

The law places the burden of proving innocence upon any public official who becomes "inexplicably rich" during his term of public service. In the case of the two former zone commanders, Mexican officials said that Chao Lopez's wealth is believed to exceed $1.25 million. They said that Acuna Figueroa has "several bank accounts" in the United States, but no total figures were available.

The pay of DFS agents is not made public, but commanders in the Federal Judicial Police, the counterparts of the DFS in criminal investigations, receive $1,200 a month.

"We know that Chao Lopez in particular has been living well beyond his means," said a U.S. official who asked not to be identified.

Another mystery involving the DFS concerns the sudden disappearance of Jose Antonio Zorrilla Perez, the immediate former director of the agency.

Vanished Official

He left the job Feb. 28 after being nominated for a seat in Congress from Hidalgo state by the ruling Institutional Revolutionary Party. He launched his campaign with the statement, "It's time to tell the truth because the people demand it."

As the agency's involvement in the narcotics trade began coming to light, questions started to surface about Zorrilla's possible role. He was alleged to have signed many of the phony DFS credentials that were reported to be in circulation.

On May 25, Zorrilla abruptly resigned as a candidate and left the country on an Iberia Airlines flight headed for Madrid. His present whereabouts are not known.

The head of the party, Sen. Adolfo Lugo Verduzco, told Proceso, a local news magazine, that Zorrilla's resignation was related to the party's wish to conform to De la Madrid's "moral renovation" campaign.

The Ministry of Government, the Cabinet department of which the DFS is a part, said that Zorrilla was guilty of "administrative inefficiency" and "deficient control over the actions of his agents." But it added that no one has accused Zorrilla of criminal wrongdoing.

The U.S. Embassy has issued a statement denying a report in the current issue of Proceso that quotes an unnamed official of the U.S. Drug Enforcement Administration as saying that Zorrilla was linked to the narcotics trade. "The DEA has no proof that Mr. Zorrilla Perez is involved with narcotics traffickers," the embassy declared.

An official of the embassy emphasized privately the use of the word "proof."

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5. Disarmament

US arms control policy is guided by a number of key principles. Any agreement: must enhance both US and Allied security, must not detract from nuclear and conventional deterrence, must improve strategic stability, must reduce the risk of war, and must be complied with and be effectively verifiable. Our central arms control objective, therefore, is the achievement of radical reductions in the nuclear arsenals of both sides, with the ultimate goal of ridding the world of the nuclear threat.

The United States has presented significant new arms control proposals at the ongoing Geneva Nuclear and Space Talks. These proposals are balanced and equitable and, by responding to the positive elements of Soviet proposals, are designed to open the path to rapid progress in the negotiations. President Reagan and General Secretary Gorbachev made a commitment last November at the Geneva Summit to accelerate negotiations where there is common ground. They agreed to the principle of 50 percent reductions, appropriately applied, in offensive nuclear arsenals and to seek an interim agreement on intermediate range nuclear forces. We regret that despite our efforts the promise of the Geneva Summit is unfulfilled. The US takes its commitment seriously. If the Soviet Union will also take its commitment seriously, and engage in constructive dialogue at the negotiating table rather than extensive propaganda in the media, we believe significant progress can yet be achieved.

Round V of the Geneva talks begins May 8. The US will maintain its priority on implementing the mandate from the last summit to pursue areas of common ground, will seek the elimination of unacceptable Soviet linkages and preconditions, and will seek a constructive Soviet response to the latest US proposal.

If the world is eventually to be free of the dangers of nuclear weapons, we must also continue to explore the possibilities of defenses against nuclear attack. We have made clear the U.S. commitment to the Strategic Defense Initiative (SDI) in which we are examining whether it is possible to develop technologies that can protect people by defending them, rather than by threatening to avenge them. Our efforts in this area are in full compliance with international agreements, including the ABM Treaty. Also, as part of our "open laboratories" initiative, we have offered to permit Soviet experts to see first hand that the SDI does not involve the development of offensive weapons.

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6. Human Rights

Background: Human rights are central to America's concept of itself and are at the core of US foreign policy. In 1776, our government became the first specifically created to preserve human rights; our Declaration of Independence even speaks of "certain unalienable rights" with which all people are "endowed by their Creator." Such rights cannot be granted by any government; rather they are "unalienable" because, based on "the laws of nature," they belong to everyone. Because human rights have always been inseparable from American identity, it follows that a human rights policy is more than just an appendage to our foreign policy. Our humane traditions separate us from those who deny human rights and embody America's attraction to people all over the world. Unfortunately, this intention to secure rights everywhere does not translate itself easily into an effective human rights policy. Devising a policy that works well is a complex matter.

Definition of human rights: The US Government recognizes two categories of human rights. First, all individuals should be free from violations of the "integrity of the person," such as political killings, torture, cruel treatment or punishment, arbitrary arrest or imprisonment, denial of fair public trial, or arbitrary interference in personal life. Second, the government recognizes a group of political and civil rights, encompassing freedom of religion, speech, and press; freedom of association, including the right to form free trade unions; freedom of movement both within and outside national borders; freedom from discrimination on grounds of race and sex; and the right of citizens to change their government.

The additional concept of "economic, social, and cultural rights," as it has evolved over the last 25 years, includes such desirable ends as the "right to economic development," the "right to employment," and "the right to health care." Considerable American foreign aid efforts have been activated by the moral imperative to eliminate starvation, poverty, and disease from the world. The idea of "economic and social rights" is easily abused, however, by repressive governments claiming that in order to promote these "rights" they may deny their citizens the right to integrity of the person as well as political and civil rights. We believe that no excuse justifies the denial of basic human rights. Today, terrorist or guerrilla groups often violate human rights. These violators must be judged by the same standards as those applied

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to governments. An act of murder or torture or intimidation is no less reprehensible if committed by violent opponents of the government than if it is committed by the government itself.

Human rights and foreign policy: The US Government closely follows human rights developments and reports annually to Congress on the practices of other countries in a volume entitled "Country Reports on Human Rights Practices." This report, the most comprehensive one of its kind, last year totaled more than 1400 pages. In addition to documenting and reacting to rights violations, our human rights policy includes a more positive side as well. Because democracy and the rule of law are the only enduring guarantees of human rights, we seek to encourage the growth of democracy throughout the world.

Reactive approach: Over the past 4 years, the US Government has employed various techniques to respond to specific human rights violations. In dealing with friendly governments, we engage in frank diplomatic exchanges often called "quiet diplomacy." This refers only to the confidentiality required for diplomatic efforts used in attempting to stop violations, not to the intensity of those efforts. Although we are unable to claim credit publicly, US representatives often have been instrumental in halting violations by governments with whom we share common interests.

Where diplomatic approaches are ineffective or where our influence is minimal, we dissociate ourselves from human rights abuses by denying economic and military assistance, by denying licenses for the export of crime control equipment, and by denying diplomatic support. Where appropriate, we have distanced ourselves from human rights violations by public statements. For example, the US Government has raised human rights concerns publicly in both friendly and unfriendly countries, such as Iran, South Africa, the USSR, Uganda, Poland, El Salvador, the Philippines, Nicaragua, Chile, Sudan, and Afghanistan. In most cases, we employ a combination of traditional diplomacy and public affirmations of US interest in human rights problems. Although our methods vary according to the country in question and its relationship to the US, our goal of pursuing human rights by the most effective means remains constant.

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Positive approach: Reacting to persistent rights violations is not enough; the abuses we stop are likely to recur so long as the system responsible for them does not change. Thus, the Reagan Administration has designed a long-term strategy to encourage development of democratic institutions that will allow human rights to flourish. Through the newly established National Endowment for Democracy, both major US political parties, labor unions, business groups, and many private institutions are working together in programs designed to promote democratic practices abroad. In addition, through Section 116(e) of the Foreign Assistance Act, more than $3 million is disbursed annually by the Agency for International Development for programs designed to promote civil and political rights abroad. These efforts reinforce a powerful trend toward democracy. Since November 1980, for example, more people have voted in more elections in more countries in Latin America and the Caribbean than in any previous similar period. Elected democratic governments have replaced military regimes in Argentina, Bolivia, and El Salvador. Grenada, ruled for 4 years by a Marxist-Leninist dictatorship, held free and fair elections in December 1984 and has restored constitutional democracy. As the strongest nation that believes in human rights, we help defend human dignity by promoting democracy.

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JN L.A. Mexico

Mexico Trying to Halt Police Torture

By WILLIAM STOCKTON
Special to The New York Times

MEXICO CITY, Feb. 1 — The discovery of the bodies of eight prisoners in the wreckage of a building destroyed in the earthquakes in September, and widespread allegations that they had been tortured by the police, has set off a campaign to end the official use of torture in Mexico.

A bill providing prison terms for police officers who engage in torture has been passed by the Senate and will be considered in April by the Chamber of Deputies. Because it is sponsored by the ruling Institutional Revolutionary Party, it is considered certain to pass and become law.

A new Mexico City Attorney General has been named by President Miguel de la Madrid and instructed to bring an end to the use of torture by the Attorney General's agents, under whose jurisdiction the prisoners were being detained when the earthquakes struck.

Mexico City's newspapers have demanded that torture be stoppped, applauding the bill as it moved through the Senate and calling for even stricter legislation than that passed by the senators.

Diplomats here who monitor human rights abuses by Latin American governments say the new effort puts Mexico at the forefront of the region's governments in improving human rights. The United States State Department, likewise, has applauded the de la Madrid administration's efforts.

Moral Renovation Campaign

When he came into office at the end of 1982, Mr. de la Madrid began a moral renovation campaign that included moves against police agencies suspected of human rights abuses. One of his first official acts was to disband a particularly notorious unit of the Mexico City Police Department that had been implicated in many killings and cases of torture.

Human rights activists in the opposition parties see the introduction of the anti-torture bill in the Senate and the appointment of a new attorney general in Mexico City as an effort by the Government to forestall criticism abroad.

Members of the ruling party say the bill represents the Government's continuing effort to improve human rights conditions.

Although public attention has generally focused on torture of political prisoners, torture of ordinary criminal suspects is a common police technique throughout Latin America. Torture is used to obtain confessions and information, or sometimes to extort money.

The Mexican police have a reputation for carrying out acts of torture. Police torture of prisoners is a common theme on the radio program "Inocente o Culpable" — Innocent or Guilty — broadcast by the journalist Paco Huerta on a Mexico City radio station. Mr. Huerta goes into prisons and interviews convicts and then broadcasts their stories. He said that almost everyone he interviews describes receiving some form of torture at the hands of the police.

"There has always been torture in Mexico," said Rosario Ibarra de Piedra, Mexico's leading human rights activist and the presidential candidate of the Revolutionary Workers Party in 1982.

"Torture is not only for political activists or drug traffickers," she said. "Whatever citizen falls into the hands of the police becomes a victim of maltreatment."

"I acknowledge that some public servants, police agents, do commit or have committed acts of torture," Renato Sales Gasque, the new attorney general for Mexico City, said in a recent interview. But he emphasized his belief that torture was not ordered by senior law enforcement officials or part of the Government's policy.

Prisoners Were Colombians

The anti-torture movement was given impetus in the aftermath of the great earthquakes Sept. 19 and 20 that destroyed hundreds of buildings in Mexico City, including the attorney general's office building. Rescuers found the bodies of eight Colombians in the rubble, killed when the structure collapsed.

The discovery was quickly followed by reports that the bodies showed signs of torture and that the Colombians, detained in connection with drug trafficking and bank robberies, had been illegally detained and tortured by members of the Attorney General's investigatory police.

An investigation ordered by the Attorney General at that time, Victoria Adato de Ibarra, concluded that the Colombians had not been tortured or detained illegally.

Opposition members in the Chamber of Deputies attacked the investigation and its conclusions and demanded that the Mrs. Adato come before the chamber to answer questions. She appeared before the chamber's justice committee, and committee members later said she admitted the use of torture and illegal detentions by her office's police force. Newspaper reports quoted her as saying the eight Colombians had been detained illegally.

In mid-December, after three months of attacks from newspapers and opposition politicians, Mrs. Adato stepped down and was named to a seat on Mexico's Supreme Court. President de la Madrid then appointed Mr. Sales Gasque attorney general.

Comparison to Chile

Mexico's Constitution forbids human rights abuses. Changes in Mexican law forbidding torture and providing penalties for those who commit it had been under consideration before the earthquake by the Senate's Human Rights Committee.

After the earthquake, in response to the allegations of torture, a bill was introduced by the committee's president, Senator Gonzalo Martínez Corbala, who was Mexico's Ambassador to Chile during the overthrow of the leftist Government of Salvador Allende Gossens and the establishment of the military Government of Gen. Augusto Pinochet.

"I was a witness there to indescribable torture, and since then I have been concerned about power structures like Pinochet's based on torture," Senator Martínez said in an interview. "We don't want Mexico to be anything like what has happened there."

The bill provides jail terms of from two to eight years for anyone convicted of torturing a prisoner and contains other provisions forbidding either physical or mental coercion.

Mrs. Ibarra de Piedra said she and other opposition party deputies want to strengthen the bill when it comes before the Chamber of Deputies in the spring. They want the law to mandate stiffer prison sentences and hold a torturer's superiors responsible.

A Show of Resolve

Although some groups have questioned how rigorously the the Government will enforce a law banning torture, Mr. Sales Gasque said torture will no longer be permitted.

"I have warned all the public servants of this office that anyone who commits an act of torture will be prosecuted," he said. "We censured the use of torture before, we censure it now and we will censure it in the future because we live in a state of rights."

But he said new laws and threats of prosecution are not enough. The quality of Mexico's police must be improved.

"We are going to place more emphasis on the substantial improvement of technical and scientific methods of police investigation," he said. "We are going to emphasize the formation, training and modernization of our police."

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Jan. 29, 1986 p. 33 Mexico

INTERNATIONAL

Police Violence in Central Mexican Town Seen as Ominous Note by the Opposition

By Mary Williams Walsh
Staff Reporter of The Wall Street Journal

SAN LUIS POTOSI, Mexico—A bloody videotape of police subduing opposition activists is making the rounds, and Mexicans who see it are concluding that economic crisis and political disaffection have made some government officials willing to take a brutal line against dissidents.

"The system wants to control absolutely everything," asserts Salvador Nava, an eye doctor who is a kind of godfather to the political opposition in this central Mexican city of 650,000. "In the middle of this economic crisis," says Dr. Nava, "the system should open up a little. But they think they have to tighten."

For other major international news, please see:
—Britain's National Westminster Bank awaits Fed approval to move toward establishment of an integrated investment bank, page 5.
—U.S.-Japanese landing rights dispute delays United Air's purchase of Pan Am's Pacific division, page 25.

The videotape, made by local television journalists, shows how the government clamped down when opposition members turned out this month to protest the installation of a new mayor from the ruling Institutional Revolutionary Party, or PRI.

Eggs vs. Truncheons

The opponents, claiming fraudulent elections, started things off by hurling a blizzard of eggs at the city hall. Then the police moved in with yard-long metal pipes, clubs and tear gas.

The tape shows police agents kicking people karate-style in the face and kidneys, spraying tear gas into an old woman's face, chasing the wounded into a nearby cathedral, clubbing away at people lying on the ground. In one scene, an officer whacks a man across the chest with such force that his wooden club snaps. In another, paramedics in riot helmets load a corpse onto a stretcher. The city hall got torched in the fracas, and when the volunteer fire department arrived, thugs slashed its hoses. The tape lasts for more than an hour.

Political violence isn't new in Mexico, but the presence of TV crews filming it is. Mexican citizens hear often enough of riots in what they call "the province"—the countryside—but seldom do they get to watch the bloodshed in closeup, on color tape.

"We now have electronic samizdat in Mexico," says Carlos Pereyra, a political-philosophy professor at the national university in Mexico City, referring to the political literature circulated clandestinely in the Soviet Union.

The Video Age

Prof. Pereyra and others are impressed by the way the tape is traveling. "I think there are now thousands of copies," says Juan Jose Rodriguez, the San Luis Potosi TV anchorman who first broadcast the tape. Townspeople taped the broadcast with video cassette recorders, and now copies are around the country.

Opposition congressmen are using the film as evidence in a legal action attempting to unseat the mayor here, as well as the state governor, also a PRI man.

No one denies that police agents made a violent sweep of the San Luis Potosi town square. What the tape doesn't make clear is who gave the police their orders. Government officials say they never told the police to beat anybody up—much less kill anybody. They confirm there is a dead man, but say he probably was hit by a pickup truck.

Officials say the police just got carried away. "We lost control," says Gregorio Marin, spokesman for the governor. "The government has never wanted violence." He says the police "lost patience after being hit with eggs and tomatoes, and having bottles thrown at them."

The opposition charges that the government paid thugs to infiltrate the morning egg-tossing spree, provoke a riot, then torch the city hall. It was a way "to justify their repression," says Guillermo Pizzuto, the losing opposition mayoral candidate.

Official Account

The government retorts that it has arrested eight young men who say the opposition paid them about $2.20 apiece, gave them "a strange-tasting beverage," and told them to set fire to the city hall and slash the firemen's hoses.

Mr. Rodriguez, the TV anchorman, says he only knows of one youth who confessed, and adds that when he interviewed him, the young man recanted.

Mr. Rodriguez quit about a week after the broadcast, saying he felt the government was waging a character-assassination campaign against him. The tape apparently got into the public domain by a fluke: The local TV station manager was out of town the day of the riot, so underling reporters were in charge. They broadcast the tape as a special news flash, and aired it again on the scheduled evening news.

> "IN THE middle of this economic crisis, the system should open up a little,' says Dr. Salvador Nava, an opposition leader. 'But they think they have to tighten.'

Mr. Rodriguez isn't sure why the police let his crew record the violence. "Maybe they didn't expect the images would be made public," he theorizes. "Maybe they thought just a very brief film would be made, one that didn't reflect the magnitude of what happened."

In Mexico City, the leading private TV station, which tends to be circumspect in political matters, aired just a fleeting snippet of the videotape, then went on to describe the tranquility of the 500-odd other cities where mayors were installed this month.

Election Time

The tape incident erupted at an awkward time for the government. More elections are coming up in a few months, and in northern Mexico the PRI faces one of its strongest electoral challenges ever. San Luis Potosi wasn't the only town to witness partisan violence this month; trouble broke out in several others as well.

The party that generally provides the strongest opposition to the PRI is the National Action Party, or PAN. Lorenzo Meyer, a political scientist with the Colegio de Mexico in Mexico City, says the ruling PRI doesn't "want the opposition to build up regional power bases."

But in San Luis Potosi, an opposition power base has existed for decades. It rests on the shoulders of Dr. Nava, who is loosely tied to the PAN but represents more than anything else the political disaffection of urban, middle-class professionals. His ideology is simple and nonpartisan.

Heberto Castillo, a leftist congressman in Mexico City says, "He's not a man of the right. He's not a PANista. He just thinks that, if you have honest people in government, that's enough to solve your problems."

That makes San Luis Potosi a good example of the PRI's big obstacle: the simple conviction of many middle-class city-dwellers that PRI officials don't rule honestly, and don't let locals pick their own leaders.

Citizens here complain they have been ruled for generations by crude strongmen supported by PRI decision-makers in Mexico City. Opposition ire has focused most intently of late on the new PRI governor and his recent predecessor, both outsiders.

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99th Congress
2d Session

JOINT COMMITTEE PRINT

COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1985

REPORT

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AND THE

COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE

BY THE

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MEXICO

Mexico is a Federal Republic which has been governed by the Institutional Revolutionary Party (PRI) since 1929. The Constitution of 1917 provides for the separation of powers among a bicameral legislature, a judiciary, and an executive, but the powers of the presidency far outweigh those of the other branches in Mexico's highly centralized system.

The PRI dominates politics at the federal and state levels. Opposition parties, viewed by the Government as outlets for criticism and dissatisfaction, have been able to make some inroads on the municipal level. Opposition strength, especially that of the conservative National Action Party (PAN), is growing but has yet to challenge the PRI successfully on the state level, let alone for the presidency. Most opposition party opportunities have been thwarted by nation-wide PRI voting strength and organizational power, by maneuvers to divide the opposition, extensive public patronage, and, the opposition claims, by continuing electoral fraud. In the July 1985 gubernatorial elections, the PAN mounted particularly strong campaigns in the northern states of Nuevo Leon and Sonora. According to official Government election returns, the PRI won substantial victories in both states. The opposition and many journalists asserted that massive fraud took place in the elections. Others, however, asserted that attractive PRI candidates, hard campaigning, and PAN failure to get out its vote were determining factors. Nationwide, the PAN won eight out of 300 Deputy seats in the single-member constituencies. In addition, opposition parties split the 100 seats reserved for them in the Chamber of Deputies.

Mexico is an urbanized country with a sizeable and modern industrial sector. There are also large peasant and indigenous populations in the rural areas which continue greatly to rely on manual labor. The pattern of income distribution is severely uneven.

In 1985 human rights organizations continued to express concern over the fate of Mexico's "disappeared" and to make allegations concerning arbitrary arrests, especially of members of opposition parties, unions independent of the PRI, and peasant organizations. The National Committee in Defense of Prisoners, Persecuted, Disappeared, and Political Exiles in Mexico currently estimates there are 475 Mexicans who have disappeared since 1969 and whose whereabouts are unknown. The Committee states that 11 of them have disappeared during the current administration. The Committee charges that all of those unaccounted for are being held clandestinely in government prisons, a charge which the Government denies. The Committee also currently alleges the existence of 140 political prisoners who have been arrested during the current administration and remain in jail; the vast majority are peasants involved in land disputes.

Concern over alleged use of torture by police reached a peak in the aftermath of the September earthquakes which destroyed the Mexico City Attorney General's building. A number of bodies, both Mexican and Colombian, were found, allegedly bearing signs of torture. Though this was officially denied, by the end of the year the Senate had passed an anti-torture bill, the Attorney General of the Republic had admitted that Mexican police had used torture in some instances but that torture was not "institutionalized," and the Mexico City

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Attorney General had been replaced. Her successor had publicly stated that "bad public officials" had been responsible for torture in the past and promised to eliminate such practices. A number of deaths have also taken place, especially in the rural sector in disputes over land. The Federal Government continues efforts to curb misuse of political authority; local leaders on the municipal level, however, especially those involved with influential private landowners, allegedly place a low priority on the protection of human rights, and abuses appear to stem largely from that sector.

RESPECT FOR HUMAN RIGHTS

Section 1 Respect for the Integrity of the Person, Including Freedom from:

a. Political Killing

The investigation into the 1982 Tula River killings, reopened last year, is continuing. During 1985, some members of the former Division of Investigation for the Prevention of Delinquency (DIPD), the main body implicated in the killings, were interrogated. Of those members for whom arrest warrants have been issued, many remain fugitives, but at least four have been arrested and are in jail pending completion of the investigation. On November 18, a former Commander of the DIPD, also in prison in connection with the Tula River killings, was found dead in his cell in the Reclusorio Oriente, an apparent suicide. In addition, three members of the former Federal Security Directorate (DFS), for whom warrants also are outstanding, remain fugitives. The former Director of the Federal and Transit Police, on whose instructions, according to testimony, the killings took place, is currently awaiting extradition from the United States.

Peasant organizations charged that, during 1985, at least 21 peasants were killed in confrontations in the states of Chiapas, Veracruz, Hidalgo, Sonora, Oaxaca, Puebla, and Guanajuato. Such charges have come not only from independent peasant organizations such as the Independent Center of Agricultural Workers and Peasants (CIOAC) and the National Coordinator for the Plan of Ayala (CNPA) among others, but also from the PRI-affiliated National Confederation of Peasants (CNC). The independent groups attribute the killings to paramilitary bands supported by local landowners (caciques) as well as to members of the CNC, and to local police. For its part, the CNC attributes fatalities in its ranks to members of the independent unions, encouraged, they say, by leftist political activists. Others, however, suggest that for the most part CNC members who have been killed were victims of internal CNC struggles.

A major incident in 1985 involved the killing of Alejandro Cardenas Peralta, a Unified Socialist Party of Mexico (PSUM) Federal Deputy, on February 27 in Oaxaca. The PSUM accused an agent of the State Attorney General and two agents of the State Judicial Police in Oaxaca of having carried out the murder. Other allegations are that his opposition to a tourist project which would have entailed expropriation of communal lands was a factor in his murder. An investigation has been ordered, but its results, if any, have not been made public and no arrests have been made.

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MEXICO

Representatives of the peasant organization Campesinos Unidos de la Sierra Oriental (CUSO) in the states of Hidalgo and Veracruz charged in 1985 that powerful landowners' interests are being protected by local judicial police. They have alleged that such activities have resulted in the murder of 20 peasants and they have asked the Governor of Hidalgo to order an investigation. Peasant organizations in Oaxaca have charged that large local landowners, with the complicity of local authorities, have been able to carry out campaigns of murder, intimidation, and attacks on their members. The Triquis, an indigenous group which is concentrated in Oaxaca, claim they have been singled out as a target of such tactics, and have accused the Governor of Oaxaca of complicity.

Amnesty International has continued its investigations into incidents along the Mexican-Guatemalan border in which Guatemalan refugees were killed in 1984. In January 1985 the Mexican Government gave assurances to Amnesty International that the Government will continue to provide its traditional protection and relief to all refugees. The Government works in close cooperation with the U.N. High Commissioner for Refugees to achieve these ends, but some refugees continue to allege mistreatment, at the hands of not only Guatemalan forces but also the Mexican security forces.

b. Disappearance

The Committee in Defense of Prisoners, Persecuted, Disappeared, and Political Exiles of Mexico, led by Federal Deputy and Revolutionary Workers Party (PRT) 1982 presidential candidate Rosario Ibarra de Piedra, continued to press the Government for information on the fate of Mexico's disappeared. Alleging a total of 475 disappearances since 1969, including eleven during the current Administration, the Committee continues to charge that the disappeared are being held in a variety of clandestine, government-controlled prisons, where they are subject to torture. It supports these claims with reports by other human rights groups, news reports, and letters smuggled out of prison. The Government, in formal reports and interviews, steadfastly denies the existence of any such prisons, as well as involvement in the disappearance of individuals, and states that those unaccounted for were killed in encounters with security forces, changed their names and went underground, or voluntarily went into exile. In reference to the eleven specific cases, there are indications the Government has made some efforts to determine the whereabouts of the missing but to date has not been able to resolve the cases.

In February 1985 U.S. Drug Enforcement Administration Agent Enrique Camarena and his Mexican pilot were kidnapped in Guadalajara and subsequently killed. The crime involved a gang of narcotics traffickers, as well as local and state police, some of whom have been arrested during the investigation of the killings. The investigation itself is continuing and the trial is expected to take place by mid-1986.

In January 1985 an American citizen doing research for a book on drug-trafficking in Mexico and a friend disappeared in Guadalajara. Their bodies were discovered months later. It appears that at least some of the individuals implicated in the Camarena case were involved in these murders as well.

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MEXICO

In December 1984 four Jehovah's Witnesses missionaries disappeared in Guadalajara. They are still missing. Investigations are continuing. Their disappearance while conducting door-to-door missionary work may be related to inadvertent contact with drug traffickers.

The UN Human Rights Commission's Working Group on enforced and involuntary disappearances considered evidence presented by Mexico at the 39th session of the Commission. At that time, Mexico was removed from the list of countries considered by the Working Group.

c. Torture and Cruel, Inhuman, or Degrading Treatment or Punishment

Although torture is prohibited by the Constitution, human rights organizations have charged that the police have tortured both political prisoners and those arrested for common crimes with electric shocks, often applied to the genitals; beatings; deprivation of light, food, and water; exposure to the elements for long periods; and other means. During 1985 two American citizens arrested on narcotics trafficking charges filed complaints of various abuses during their arrest, interrogation, and imprisonment. In response to these allegations the Government has initiated an investigation.

Rosario Ibarra de Piedra alleges that the Oaxaca State Government has tortured members of the Coalition of Workers, Peasants, and Students of the Isthmus (COCEI). On April 13, the PAN municipal head of Zimol, Chiapas, Roberto Alfonso Ruiz, accused Chiapas State officials of arresting and torturing peasants on a regular basis, naming the State Attorney General as culpable. Following the July-September occupation by members of the National Action Party (PAN) of the City Hall in Agua Prieta, Sonora, in protest of the July election results, the PAN National Executive Committee alleged that 16 of its 21 arrested activists had been tortured while in custody.

In August the magazine "Proceso" published an open letter from six prisoners held in the Reclusorio Oriente, a prison in the Federal District, asserting that they had been repeatedly tortured with electric shocks to their genitals to extract spurious confessions on various crimes. They alleged that the real motive for their mistreatment was their membership in the Popular Tacuba, a party of workers and peasants. The Government states that the prisoners' allegations of mistreatment are simply a means to escape punishment and that they are guilty of the charges made against them, and it denies that their confessions were coerced.

In the aftermath of the severe earthquakes in Mexico City which occurred in September and destroyed the Federal District Attorney General's office building, the local press reported that the bodies of four Colombian prisoners were found, bearing signs of torture. The discovery sparked inquiries from the Colombian Government, as well as other governments providing disaster relief. Also found in the structure was the body of a criminal lawyer, Saul Ocampo, which reportedly showed signs of beating and asphyxiation. Ocampo had disappeared a week before the earthquake, on September 13. The then Attorney General for the Federal District denied before the Justice Commission of the Federal Chamber of

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Deputies that the Colombians had been tortured, and she presented forensic statements that injuries and deaths were caused by the collapse of the building itself, though she admitted the Colombians had been arrested without warrants. On December 3, the Attorney General of the Republic admitted that police had tortured detainees in Mexico, although he emphasized that the practice was not "institutionalized." Media editorial comment on his statement was critical, observing that torture had become an established method of police investigation, based on inefficiency, corruption and lack of democratic controls on police bodies. On December 26, the Federal District Attorney General resigned after being named a Supreme Court Justice by President de la Madrid. Her successor stated in his first press conference that no attorney general had ever ordered police to conduct torture. He said, however, that some bad public officials had engaged in torture, and vowed to eliminate any such practices.

The Government's official position is that in the rare circumstances where torture occurs it is not officially condoned. However, on September 18, following allegations of torture of the Colombian detainees, the newly formed Senate Commission on Human Rights held a press conference to announce its drafting of a bill which, augmenting constitutional prohibitions against torture, would specifically prohibit the practice, as well as providing punishment for officials engaging in torture. In response to a question whether the Committee's position was a tacit acceptance that torture exists in Mexico, the Committee responded affirmatively.

The de la Madrid Administration, in apparent response to continuing allegations of torture by law enforcement officials, has conducted new recruitment into the various police forces and has emphasized education and training in legitimate investigative skills.

Prisons are overcrowded, and there are complaints about lack of trained personnel, a high turnover both in staff and administration, and mistreatment of prisoners which is related to corruption of prison officials. Since the current Administration took office, reforms have been carried out in the prisons of the Federal District, where two new prisons are under construction. In some other parts of Mexico, overcrowding has in a few instances been somewhat alleviated by new prison construction, but in actuality little appears to have been done to remedy the poor conditions outside the Federal District.

In March 1985 Mexico signed the U.N. Convention Against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment and the Mexican Senate gave its consent to ratification of the Convention in December. President de la Madrid signed the formal instrument of ratification on January 20, 1986.

d. Arbitrary Arrest, Detention, or Exile

Leaders of peasant organizations and unions outside the framework of the PRI, as well as opposition party activists, claim that the police frequently make arbitrary arrests which result in extended periods of detention.

Allegations have appeared in the Mexican press that during a February demonstration of peasants in Tuxtla Gutierrez,

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Chiapas, local police were responsible for killing one demonstrator, injuring 154, and arresting six. The Catholic Bishop of San Cristobal de las Casas, Samuel Ruiz, asserted that there has been a deliberate increase in the number of incidents of arbitrary arrest, harassment, and other repressive measures being taken against peasants in Chiapas on the part of state authorities.

Representatives of Campesinos Unidos de la Sierra Oriental (CUSO) in the States of Hidalgo and Veracruz have demanded a state investigation into the continued detention of twelve peasants in Pachuca. The press reported in March that a peaceful demonstration of the Unidad Obrero Campesino Popular (UOCP) in front of the Secretariat of the Interior was violently suppressed by police; one person was killed and another was arbitrarily arrested. In protest, the UOCP first staged a hunger strike and then seized the Greek and Dutch Embassies in Mexico City for a brief period of time.

Amnesty International has adopted as prisoners of conscience four members of the Coalition of Workers, Peasants, and Students of the Isthmus (COCEI), including one of its founders, Leopoldo de Gyves Pineda, who have been in prison since December 1983. The four have been charged with offenses against the public order, illegal carrying of arms, and incitement to riot. The COCEI claims that the charges are politically motivated, following the forcible ousting of the PSUM/COCEI municipal government of Juchitan, Oaxaca, in July, 1983. (The PSUM/COCEI coalition had won the 1981 election).

Practically all opposition parties have lodged charges of arbitrary arrest against PRI-controlled local authorities. In Tamaulipas, both the PSUM and the PAN claim that the police are harassing and arresting opposition leaders solely on the basis of their political views. The PAN alleges that four of its members were held in jail for 20 days in January 1985 without any charges before finally securing release. In the Yucatan, the PAN reported that 11 PAN members in the town of Peto were arrested in April for their political activities, and that four of the group were held for 60 days before their release. Peasants marched in Oaxaca in April to protest the detention of thirty-three peasants whom they termed political prisoners.

Jose Francisco Velazquez, President of the Bar Association in Mexico State, asserted in an address on April 17, 1985, that fully 40 percent of the prisoners held in the State of Mexico are innocent of all charges, and that torture and kidnappings characterize police methods there. He demanded that the Government either formally charge all prisoners and bring them to trial, or release them. In response, the Assistant Attorney General for the state denied that prisoners are being mistreated or arrested without cause. According to press accounts, the state Attorney General's own records show that, though there were over 7,500 detainees in 1984, only 1,914 orders of detention had been issued.

The Mexican Senate has approved a change in the criminal code preventing any "unregistered" arrests by the judicial police. The new section of the law Article 197, requires that those arrested be brought before a judge from the moment they are placed in a holding cell and that the arrest be immediately registered. Supervisors of holding cells will be required to note the date and time the prisoner is brought in.

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There are legal prohibitions against forced or compulsory labor.

e. Denial of Fair Public Trial

Under the Constitution, trial and sentencing must be completed within 12 months of arrest for crimes that would carry at least a 2-year sentence. Despite efforts at reform, this standard is often not met because of delays caused by cumbersome court procedures, backlogs of cases, and the defendants' inability or unwillingness to pay bribes to bring their case to trial. Especially in the criminal field, lack of judicial independence and low pay for judges combine with procedural inflexibility and an overburdened bench to weaken a judicial system which is highly advanced in many respects, and make it vulnerable to corruption.

Allegations have been made by the political opposition that the failure to bring to trial detained peasant activists, independent union members, and those in the political opposition is politically motivated. All judges are placed in position via renewable appointments made by the President, State Governors and the head of the Federal District, as the post dictates. The political opposition alleges that the judiciary is not independent of the Executive Branch of Government, especially where the opposition has sought legal recourse to combat purported electoral fraud.

Defendants have a right to counsel and public defenders are available. Although certain sections of the criminal code provide for the convoking of tribunals with juries, in practice this almost never takes place. In most cases, a judge, generally acting alone, examines written statements, expert opinion and, less commonly, oral testimony and then renders his verdict.

f. Arbitrary Interference with Privacy, Family, Home, or Correspondence

Although the Mexican Government generally does not intrude on the privacy of individuals, and search warrants are required by law, Mexican human rights activists and members of the political opposition have complained that they are followed by the police and their telephone lines are tapped. Members of independent workers' and peasants' organizations, particularly in the northern states, say they have been frequent targets of these practices. There have also been charges of invasions of peasants' homes by local landowners accompanied by police without warrants, and allegations that these incidents sometimes involved robbery, rape, and the burning of homes. Urban squatters allegedly have been similarly victimized.

Section 2 Respect For Civil Rights, Including:

a. Freedom of Speech and Press

Freedom of speech and of the press are guaranteed by law. The Government is tolerating more direct public criticism, and bolder press articles have appeared. Certain topics, such as direct criticism of the President and the military, have traditionally been avoided by the media. Mexico's press is a primary source for reporting allegations of human rights violations, and although there continue to be instances where reports of violations are not carried, the coverage generally speaks positively for press efforts in this area.

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Despite the trend towards press liberalization, in March the political magazine "Contenido" had to stop publication, allegedly because of government warnings that its political coverage was offensive and dangerous to the public interest. Notable among the articles in the last issue was extensive coverage of former President Jose Lopez Portillo, alleging that he had profited personally from his term in office.

Press sources report that the Administration influences the press by giving financial supplements to individual reporters for favorable articles, by withholding newsprint and ink (government monopolies) from critical papers, and, more significantly, by selectively placing government advertising, an important source of income for the press. Some payments to journalists have reportedly been reinstituted by the de la Madrid Administration, after having been suspended following the Administration's entry into office. In some cases, the payments are indirect, as when a journalist receives a percentage of the advertising sold to the entities which he covers. Opposition parties and some journalists have publicly accused the PRI's Office of Information of making large payments directly to other journalists. They say that this explains the reduction in direct government subsidies to journalists.

b. Freedom of Peaceful Assembly and Association

The Constitution grants the right to peaceful assembly for any lawful purpose throughout the country, but a government permit is generally required for major demonstrations. Within the Federal District, opposition political groups, as well as peasant and indigenous organizations, are allowed frequent access to both main boulevards and the city's large central square for demonstrations. However, various opposition groups have alleged that peaceful demonstrations were broken up by police and security forces, and some participants have been assaulted and arrested. The Government generally defends its tactics by asserting that the demonstrators pose a threat to public order.

Basic trade union, worker, and employer rights are protected under Mexican law, and most, such as the right of workers to organize trade unions, to bargin collectively, and to strike, are guaranteed in Article 123 of the Constitution.

Mexico has a multiplicity of trade union organizations, most but not all of which are affiliated with the PRI. By far the largest of these are the CTM, or Confederation of Workers of Mexico, and the FSTSE, or Federation of Government Workers Unions, which includes most government workers. The CTM and FSTSE, along with various much smaller confederations and various independent but PRI-affiliated unions which are outside any trade union confederation, all belong to a loose umbrella labor organization known as the Congress of Labor. There are also a number of independent unions outside of the Congress of Labor, some with a conservative orientation, and others of a pronounced leftist, Communist, or radical orientation. Some independent unions continued to complain of occasional harassment from bodies associated with the PRI, but these complaints appear to have declined significantly during 1985. The majority of organized peasants belong to the National Conference of Peasants (CNC), an organization also affiliated with the PRI.

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MEXICO

Unions in Mexico are permitted to affiliate and maintain relations with recognized international trade union and labor bodies. The CTM is affiliated with the International Confederation of Free Trade Unions (ICFTU) in Brussels, and is a leading member of the democratic ICFTU's Interamerican Regional Organization of Workers, the ORIT, headquarted in Mexico City.

A number of CTM unions and occasional independent Mexican unions are also affiliated with various international trade secretariats. The CTM also always provides the Mexican Worker delegate to the International Labor Organization (ILO). The Communist World Federation of Trade Unions' regional interamerican organization is permitted by the Mexican Government to maintain its own headquarters in Mexico City, although the regional group reportedly has only one small Mexican affiliate.

c. Freedom of Religion

Under the Constitution, individuals are free to practice the religion of their choice; however, no religious body has legal standing. The clergy is prohibited from participating in politics, voting, owning real estate, or wearing religious habits in public. Some of these prohibitions are not strictly enforced; neither is a constitutional restriction against pre-university religious schools, many of which exist. In practice, the hierarchy of the Catholic Church in Mexico maintains a close liaison with the Government. Although Mexico is predominantly Roman Catholic, Protestant and Jewish communities also exist.

Protestant Evangelists, especially from outside Mexico, are active and are especially successful in certain rural, largely indigenous communities. Some critics have stated that the Government is selectively enforcing the anti-clerical laws in favor of the predominant Roman Catholic Church. Other critics have asserted that, in some outlying areas, the laws are not being enforced against the evangelists, so as to reduce the influence of the Catholic Church.

d. Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation

Freedom of movement within and outside the country is unrestricted, except for some areas along the Guatemalan border which have been closed to the public by the military.

Mexico has in the past traditionally followed a liberal asylum policy and its borders have been open to Central Americans fleeing from their countries. During the past year, there has been some attempt to control these entries without closing the southern border. The process of relocating the refugee camps from the border to the Yucatan Peninsula has continued, with the Government asserting that the purpose of the move is to protect the refugees and improve their living conditions. However, critics have charged that the real motivation is to discourage additional refugees from coming. According to the Mexico City office of the U.N. High Commissioner for Refugees (UNHCR), there were 39,600 Guatemalan refugees situated in Mexico's southeast region as of December 1985. Estimates of displaced Salvadorans in Mexico continue to be unavailable from the Mexican Government. The UNHCR will not estimate the total number of Salvadorans present in Mexico, limiting itself

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to stating that the number of refugees assisted by the office in 1985 was 2,300, of whom 70 percent were Salvadoran.

Section 3 Respect for Political Rights: The Right of Citizens to Change Their Government

Mexico has been governed since 1929 by the PRI, the dominant party. To secure its continuance in power, the PRI has relied on revolutionary legitimacy, cooption of the opposition, extensive public patronage, massive government and PRI organizational resources and -- opposition parties charge -- electoral fraud in some cases. The PRI has broad representation from labor, peasants, and other sectors of society. Opposition parties have been able to make some inroads, especially among the peasants and the middle class. President de la Madrid, in all three of his Annual Reports to the Nation, emphasized his commitment to political pluralism in Mexico. In the second address, he pointed to the registration of two additional opposition parties, the Authentic Party of the Mexican Revolution (PARM) and the Mexican Workers Party (PMT). Critics have observed, however, that it is in the interest of the PRI to keep the opposition fragmented. They also charge that the PARM joins the ranks of other so-called opposition parties, such as the Popular Socialist Party (PPS), which generally support the PRI.

The President of the Republic and Senators are elected concurrently for one six-year term. The Lower House is elected for a three-year term, once during the elections for President and thereafter mid-way through the presidential term. State Governors are elected for six-year terms, with elections staggered in the various states throughout the course of the presidential term. Members of the unicameral state legislatures and all mayors are elected for three-year terms and these elections are also staggered throughout the President's term.

Before the July 1985 gubernatorial elections, the opposition asserted that the results in states with a developed opposition, particularly Sonora and Nuevo Leon, would represent a test of the PRI's commitment to political pluralism. The PRI's victories in both states' gubernatorial contests raised the possibility of electoral fraud. However, it is also true that, in response to the PAN's expected strong showing, the PRI fielded more attractive and aggressive candidates than it has in some time, and campaigned harder.

Previous allegations of the Government's refusal to recognize claimed opposition victories included the November 1984 municipal election in Chemax, Yucatan. The opposition PAN had refused to accept the PRI municipal government which, it said, was being illegally imposed. Appeals to the state legislature did not result in resolution, and periodic protests continued through June 1985; in March, a violent confrontation between PRI and PAN supporters resulted in the death of one PAN supporter.

Opposition parties are guaranteed access to public media and seats in State and Federal legislatures are reserved for them.

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MEXICO

Section 4 Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violations of Human Rights

The Government participates in international human rights forums and allows both domestic and international human rights groups to operate in Mexico without restrictions or harassment. Various ranking Mexican officials have met with representatives of Amnesty International; the National Committee in Defense of Prisoners, Persecuted, Disappeared, and Political Exiles in Mexico; the U.N. Human Rights Commission; and other concerned organizations and their representatives to discuss allegations and share results of government investigations of reports of human rights violations. Amnesty International has an office in Mexico.

Mexico is an active member of the U.N. Human Rights Commission, and during 1985 reported to the Commission on 75 cases of disappeared persons, providing information on 73 of the cases. As a consequence of the Mexican Government's investigations into allegations of disappearances and torture, the Commission is not continuing to investigate those allegations, proclaiming the Mexican Government to be in accord with the standards by which the Commission is guided. The Mexican Government has pledged continued close cooperation with and responsiveness to the Commission, as well as other international monitoring organizations. In March, Mexico signed the United Nations International Convention Against Torture, which commits it against the use of torture, as well as to periodic reporting by representatives of the Committee Against Torture. President de la Madrid signed the formal instrument of ratification on January 20, 1986.

Amnesty International 1985 Report, which covered calendar year 1984, was concerned mainly with arbitrary arrest and prolonged incommunicado imprisonment of political prisoners, sentences based on confessions allegedly extracted under torture and ill-treatment, and disappearances. Amnesty International was also concerned about information on the arbitrary arrest and murder of members of rural communities and Indian groups, in some cases alleged to have been carried out directly by members of the official security forces, and in others by armed civilians who seemed to be acting in concert with the former. Freedom House ranks Mexico "partly free".

ECONOMIC, SOCIAL, AND CULTURAL SITUATION

Mexico's population in 1985 is estimated at 78.6 million and its population growth rate stands at 2.3 percent. The gross national product per capita was $2,350 in 1984.

Mexico's major domestic economic and social problems are poverty, inflation, generally depressed levels of economic activity since 1981, unemployment, underemployment and severely uneven income distribution. These problems have been exacerbated by the effects of the earthquakes in September 1985. The Government maintains its right to regulate many private economic activities in the public interest. Restrictions regarding the ownership of property by foreigners generally limit foreign equity participation to 49 percent.

Mexico has become an urbanized society, with 67 percent of the population living in cities as of 1980. Around 18 million people live in the Mexico City metropolitan area. Life

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expectancy at birth is 66.4 years and the infant mortality rate is 42.3 per 1000 live births. The primary school enrollment ratio was 121.1 percent in 1981 (male 122.7 and female 119.5). Primary education is both free and obligatory and has been extended to 10 years of schooling. Adult literacy as of 1980 stood at 83 percent. As of 1981, 58 percent of the population had access to safe water (urban, 61 percent and rural, 51 percent). The average caloric supply as a percent of requirement was 117 percent in 1977. There is no discrimination based on race, religion, sex, ethnic background or political opinion in the availability of food, shelter, health care, and education. The Mexican Government's figures show that unemployment is 8.0 to 8.5 percent. Underemployment has been estimated by many observers at 30 to 40 percent for several years.

Mexican law sets the minimum age for the employment of children at 14 years; children over 14 but under 16 years of age may work but are subject to special legal protections and shorter working hours than adults and cannot be employed in certain jobs. The law also provides for a minimum wage which is revised semi-annually, a maximum legal work week of 48 hours with a maximum work day of eight hours. Extensive regulations pertaining to occupational health and safety also exist. Child labor laws in Mexico are observed fairly strictly in medium-size and large manufacturing and commercial establishments, but less so in small shops and in such occupations as that of street vendor, where child labor is hard to control. Industrial safety laws are less frequently observed in practice, particularly in the heavy industrial sector and in the construction industry.

Men and women are equal in principle under the law. Mexican women have the right to file for divorce and separation. There are no travel restrictions on women and they can own property in their own names. Over the past ten years, women have increased their presence in non-traditional occupations. Although the concept of women as mothers and homemakers continues to dominate, the number of women's action groups is increasing and it appears that the objectives of women are becoming more diversified. Women comprise approximately 26 percent of the work force in urban areas but continue to work predominantly in nonsupervisory jobs with few at the executive level. However, a woman is now Secretary-General of the dominant political party. As the result of an appointment to fill a vacancy, the number of women in the 1982-1988 Senate has increased from six to seven of 64 Senators; of the 400 Federal Deputies elected in 1985 to the 53rd legislature, 43 are women (an increase of eight from the 52nd legislature).

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U.S.OVERSEAS -LOANS AND GRANTS- OBLIGATIONS AND LOAN AUTHORIZATIONS
(U.S.FISCAL YEARS - MILLIONS OF DOLLARS)

COUNTRY: MEXICO

	1983	1984	1985
I.ECON. ASSIST.-TOTAL...	8.2	8.4	11.1
LOANS...	0.0	0.0	0.0
GRANTS...	8.2	8.4	11.1
A.AID ...	0.0	0.0	0.0
LOANS...	0.0	0.0	0.0
GRANTS...	0.0	0.0	0.0
(SEC.SUPP.ASSIST.)...	0.0	0.0	0.0
B.FOOD FOR PEACE...	0.0	0.0	1.2
LOANS...	0.0	0.0	0.0
GRANTS...	0.0	0.0	1.2
TITLE I-TOTAL...	0.0	0.0	0.0
REPAY. IN $-LOANS...	0.0	0.0	0.0
PAY. IN FOR. CURR...	0.0	0.0	0.0
TITLE II-TOTAL...	0.0	0.0	1.2
E.RELIEF.EC.DEV & WFP.	0.0	0.0	1.2
VOL.RELIEF AGENCY...	0.0	0.0	0.0
C.OTHER ECON. ASSIST...	8.2	8.4	9.9
LOANS...	0.0	0.0	0.0
GRANTS...	8.2	8.4	9.9
PEACE CORPS...	0.0	0.0	0.0
NARCOTICS...	7.8	8.3	9.7
OTHER...	0.4	0.1	0.2
II.MIL. ASSIST.-TOTAL...	0.1	0.2	0.2
LOANS...	0.0	0.0	0.0
GRANTS...	0.1	0.2	0.2
A.MAP GRANTS...	0.0	0.0	0.0
B.CREDIT FINANCING...	0.0	0.0	0.0
C.INTL MIL.ED.TRNG...	0.1	0.2	0.2
D.TRAN-EXCESS STOCK...	0.0	0.0	0.0
E.OTHER GRANTS...	0.0	0.0	0.0
III.TOTAL ECON. & MIL...	8.3	8.6	11.3
LOANS...	0.0	0.0	0.0
GRANTS...	8.3	8.6	11.3
OTHER US LOANS...	88.2	79.4	0.0
EX-IM BANK LOANS...	37.2	66.5	0.0
ALL OTHER...	51.0	12.9	0.0

ASSISTANCE FROM INTERNATIONAL AGENCIES

	1983	1984	1985	1946-85
TOTAL...	1373.2	883.3	674.8	12056.1
IBRD	887.9	576.3	598.0	7796.4
IFC	179.2	25.2	0.0	776.6
IDA	0.0	0.0	0.0	0.0
IDB	306.0	281.0	74.3	3408.2
ADB	0.0	0.0	0.0	0.0
AFDB	0.0	0.0	0.0	0.0
UNDP	0.1	0.8	0.0	53.7
OTHER-UN	0.0	0.0	2.5	21.2
EEC	0.0	0.0	0.0	0.0

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LOS ANGELES TIMES
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pt. 1 p. 1,33

JN L.A. Mexico

Mexico Quakes Spark Police Torture Debate

By DAN WILLIAMS,
Times Staff Writer

MEXICO CITY—Four bodies found in the ruins of the building that contained the Mexico City prosecutor's office were not like the thousands of others dug out after the devastating September earthquakes.

For one thing, they were bound and gagged. And people who saw the bodies said they bore bruises and burns not likely to have been caused by the rubble that fell on them.

These people, who asked not be identified, concluded that the four, all Colombians arrested in Mexico, had been tortured while in custody.

The Mexican government has denied that the four were tortured. Yet an official at the Colombian Consulate here, who also asked not to be identified, said he has been told by a woman, the mother of one

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MEXICO: New Allegations of Torture by Police

Continued from Page 1

of the prisoners, that all four were tortured and were dead before the quake occurred.

The Colombian official said the woman was being held along with the four and that she survived the quake and is now in custody elsewhere.

The full truth will probably never be known. Reporters and photographers were not permitted to see the bodies, which were buried in a mass grave along with those of scores of other quake victims.

Nonetheless, this incident, along with continuing international criticism of alleged human rights abuses in Mexico, has added fuel to a debate on the question of whether Mexican police officers commonly torture prisoners despite a constitutional prohibition against such practices.

The federal attorney general, Sergio Garcia, said this week that there have been numerous cases of police torture and vowed that the government will move to stop the practice.

"The government repudiates and will repudiate any form of violation of human rights, especially the most grave one of torture, whether it be physical or psychological," Garcia said.

The Mexican Senate, led by members of the ruling Institutional Revolutionary Party, is considering legislation that would punish any official convicted of torturing prisoners.

"I'm not so naive as to think that this law alone will change the situation," said Gonzalo Martinez, a senator from San Luis Potosi. "We need to create values around the law to end this aberration."

Human rights activists say that torture is committed frequently by Mexican security forces. Specific information is scarce, though.

Most cases involve people accused of common crimes who are tortured to extract confessions. But Amnesty International, the London-based human rights organization, also has reported the torture of political activists and peasant leaders in Mexico.

In some cases, torture is reportedly inflicted to force a prisoner or his family to pay a bribe for his release, on other occasions to provide sadistic entertainment.

"This is not a question of a few errant officials," said Rosario Ibarra, a member of the Chamber of Deputies and a human rights activist. "It's inherent in the system."

Beating, Electric Shocks

The types of torture reportedly practiced in Mexico are varied and brutal. A 1984 Amnesty International report entitled "Torture in the Eighties" listed "severe and repeated beatings, including beating with cupped hands over the ear; submersion in water; introduction of carbonated water into the nasal passages; electric shocks applied to the most sensitive parts of the body; burning with cigarettes, and sexual violation and abuse."

Mexican newspapers frequently report cases of police abuse, including torture used to elicit bribes. A police official in the nearby state of Mexico was reported to have set up a torture and rape cell in a bookstore in the center of a town.

Parents in Nezahualcoyotl, a sprawling community at the edge of Mexico City, threatened reprisals against any policemen guilty of abusing youths arrested for alleged gang activity.

Mexico prides itself on maintaining an image of civil liberty and public order. The government is embarrassed by the repeated mention of Mexico along with Guatemala, El Salvador and Chile as countries where the torture of prisoners is commonplace.

Called Aberration

The Mexican government insists that in this country such practices are an aberration, not a policy.

"It is committed by those who do it on their own account, not on behalf of the government," Atty. Gen. Garcia said.

Torture is just one of a series of civil rights issues that have surfaced in Mexico in recent years. Ibarra said that since 1970, about 475 political activists have disappeared, presumably at the hands of the police and the armed forces. Another 146 were freed after being taken into custody secretly.

Those numbers pale in comparison with statistics kept in Central America. Still, human rights activists here contend that it is a question of values, not numbers.

"If they can kidnap one, they can kidnap all," Ibarra said.

Ibarra represents a left-wing party in Congress. Her son, a member of an underground anti-government organization, disappeared 10 years ago in the city of Monterrey, and she wears a picture of him around her neck.

Illegal arrest is a common problem in Mexico. The chief prosecutor of Mexico City, Victoria Adato, admitted to legislators that the Colombian prisoners whose bodies were found in the rubble of her office building had been detained improperly.

The prosecutor's office describes the Colombian prisoners as members of a "dangerous band of thieves." They had been held incommunicado for 17 days, although under Mexican law suspects may be held for no more than 72 hours before being arraigned.

According to human rights activists and foreign observers, human rights abuses have continued under the government of President Miguel de la Madrid, although the number has diminished. Of the 57 people reported to have disappeared in the first three years of De la Madrid's term, 46 have been freed, according to Ibarra.

De la Madrid campaigned for office on a platform that promised "moral renovation," including a cleanup of corruption and police abuses. Soon after taking office he disbanded a plainclothes police agency, the Division of Crime Prevention, that had been linked to several disappearances.

The anti-torture proposal before the Senate would prohibit torture for any reason, including "unstable internal politics, urgency of investigations or any other public emergency."

Also, no confession made under torture could be admitted in court. A convicted torturer could be sentenced to two to eight years in prison and deprived of up to half a year's wages.

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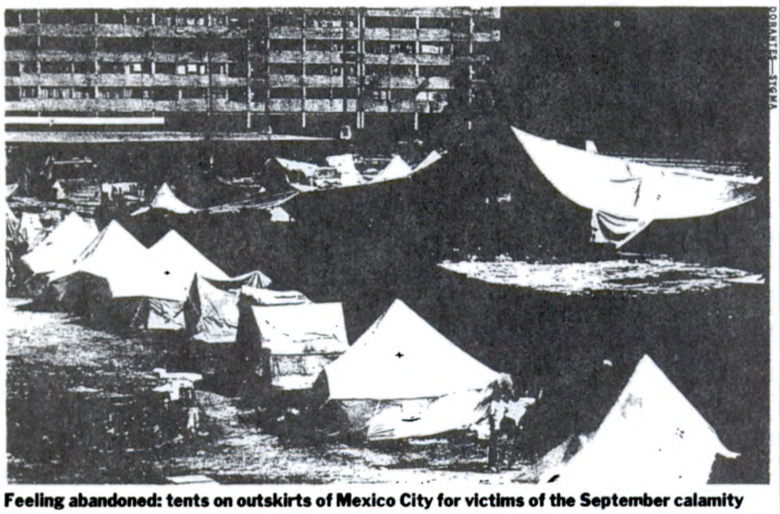

Feeling abandoned: tents on outskirts of Mexico City for victims of the September calamity

Trouble After an Earlier Disaster

Mexico's government draws fire as earthquake relief efforts lag

As Colombia staggered under the impact of Nevado del Ruiz's devastating eruption last week, Mexico was still recovering from its own recent natural calamity. The scars of that disaster were barely evident along Mexico City's elegant Paseo de la Reforma as crowds thronged its tiled, tree-lined sidewalks. Piles of rubble from the country's Sept. 19 earthquake, which killed some 20,000 people and shattered the lives of tens of thousands more, had been bulldozed from the bustling avenue that borders the Zona Rosa, the luxury shopping and sightseeing district. Something akin to normalcy seemed to have returned to the world's biggest megalopolis (pop. about 18 million).

But less than two miles away, where the broad Paseo sweeps into Mexico City's dingy eastern suburbs, the vista was not as comforting. In small parks along the thoroughfare, about 200 drab green tents were pitched together against the early winter chill. The dwellings sheltered only a fraction of those left homeless by the quake, a total of 50,000 by government estimates, or as many as 150,000 by unofficial counts. There are no sanitary facilities in the encampment; periodically, municipal trucks distribute small plastic bags of potable water. Along with a few donated blankets, that is all the relief aid that the tent dwellers have seen. Says Julieta López Uribe, 63, a camp resident: "The government has forgotten about us."

That accusation is heard frequently in Mexico City these days, and not only from earthquake victims. The complaints seem symptomatic of a growing crisis of confidence that is haunting the three-year-old government of President Miguel de la Madrid Hurtado. Bureaucratic sclerosis and political insensitivity have laid his administration open to charges that it is not doing enough to overcome the country's worst urban disaster in decades. In the past two months, an estimated $1 billion to $2 billion has left the country, mostly for the U.S., and the value of Mexico's peso has dropped from 350 to 500 to the dollar.

De la Madrid appears to have contributed to the crisis, if only by inaction. Although the quiet, Harvard-educated technocrat made a flurry of public appearances just after the earthquake, his visits to disaster areas have tapered off, adding to the image of government aloofness. The absence of strong crisis management has led to a feeling that De la Madrid's government is adrift. Says a Western diplomat in Mexico City: "The government seems to be gripped by inertia."

Much of the disenchantment stems from bitterness at the pace of the recovery program. Inevitably, there have been charges that relief money has been misappropriated. The government, however, claims that the relief effort so far has been a success. Presidential Spokesman Manuel Alonso predicts that the needs of all those left homeless by the quake will be met "by March at the latest."

In fact, international relief funds sent to Mexico after the disaster appear to have been well administered. U.S. officials report that some $4.7 million in assistance from Washington has been accounted for, although one Western diplomat claims that some privately donated material seems to have disappeared "into the void." Nonetheless, Janet Rogozinski, the American coordinator for $20 million to $30 million in private U.S. disaster aid to Mexico, says that the money is "going where it's supposed to."

Still, some of the government's actions have left it open to charges of inefficiency and insensitivity. Three weeks after the earthquake, for example, De la Madrid established a national reconstruction commission to coordinate relief efforts. Hundreds of businessmen, intellectuals and opposition politicians were invited to attend the commission's inaugural session. Since then they have heard nothing.

Businessmen complain that the government has monopolized Mexico's domestic relief effort through a state-controlled reconstruction fund. Some $71.3 million has been given by local and international donors, but there has been no public accounting of relief disbursements. Says a Mexican chemical manufacturer: "The private sector wanted to set up its own fund, but the government was afraid that Mexicans would perceive other sectors as being more effective."

And with good reason. The government's most loudly publicized relief effort has been a public relations disaster. Officials announced last month that the government would expropriate for housing reconstruction 618 acres of high-density Mexico City real estate that had been damaged in the quake. The $50 million plan envisioned spreading payments for the properties over ten years at prices well below market value. A general outcry arose when it was discovered that among the expropriated properties were undamaged single-family dwellings that should never have been included in the scheme. Several civic officials were fired as a result of the gaffe.

President De la Madrid

The urgent need to deal with the aftermath of the quake has only complicated Mexico's other severe economic problems. After three years of austerity, De la Madrid's government has failed to conquer a government-spending deficit that last year totaled 7.4% of gross domestic product. Inflation during the same period reached 60%. Under an agreement with the Washington-based International Monetary Fund, the government this year had promised to try to reduce inflation to 35%, but economists now believe that the rate may again rise to the 1984 level. Meanwhile, the purchasing power of Mexican workers has reached its lowest level in twelve years. As a U.S. official in Washington puts it, De la Madrid's "economic game plan is not working." In the next breath, the official adds that the Mexican President is "doing his best." The worry these days in Mexico City is that both statements may be equally true. —*By George Russell. Reported by Ricardo Chavira and Andrea Dabrowski/Mexico City*

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Medical Tribune, v. 26 Nov. 27, 1985, pp. 1, 28-29

Corruption Seen Contributing to Quake Toll

BY TOM WATKINS

MEXICO CITY — When news that Juarez Hospital had suffered damage was first announced, most people assumed that the center's oldest buildings, which date back to the 16th century, had been hardest hit. Instead, it was the newest building, an eight-story hospital tower built in 1969, whose floors had crumpled, trapping an estimated 1,400-1,800 as the shifts were changing on the morning of September 19.

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Corruption Adds To Quake Toll

Continued from page 1

Only 108 were rescued.

The government refused to accept help from abroad during the first 36 hours after the quake, at the very time a supply of pneumatic saws and jackhammers might have saved hundreds.

Even as hundreds of workers picked through the rubble at the site, their faces protected from cement dust and the stench of death by surgical masks, many were blaming shoddy building practices for the failure of modern buildings throughout the city to withstand the shocks. Many of the estimated 400 buildings destroyed and 1,132 buildings damaged may have been structurally unsound, contributing to the death toll, which is at least 7,000. Collusion between contractors and building inspectors is suspected. The result, said critics, has been the use of substandard building materials that do not meet building codes. More than 100 suits have already been filed in Mexico City courts against parties considered responsible for at least part of a death toll that even capital city authorities agree will never be determined exactly.

Soldiers Seen Looting

The alleged corruption was not limited to building practices. Critics charged that rescue efforts were hampered by malefactors who painted red crosses on their trucks to gain access to restricted zones. Army soldiers were charged with looting the buildings they were ordered to protect. "Everyone has seen soldiers robbing," said Dr. Rafael Fierro Barras, a family practitioner who was manning a free clinic in a two-man tent in a park near the capital's center. "It's a shame. This is my country."

Dr. Barras recounted reports that soldiers had notified residents in some areas of the stricken city that their water supplies were contaminated by breaks in the city's mains, which run parallel to the sewage pipes and had suffered numerous breaks during the earthquakes. The soldiers were said to have sold contaminated water from tank trucks to residents of the affected areas. The rumors exacerbated concerns about the water, blamed for outbreaks of gastroenteritis treated at clinics around the city.

Distrust Government

An innate distrust of the government led many homeless to avoid seeking shelter in any of the 82 government-run shelters. Some who had stayed soon left, preferring to sleep in the parks. Several of the homeless interviewed in their makeshift tents in parks and traffic islands said the shelters had been inadequately supplied. Although Mexico City newspapers made much of the supplies and money flooding into the country from around the world, "the truth is that those supplies have not arrived at their destination and the homeless have to find other recourses in order to survive," noted the daily *El Universal* on October 2, almost two weeks after the quakes. The implication of wrongdoing on the part of those responsible for distributing the goods and money was a bold statement for a paper to make in a country where the government sells the newsprint. Although

Continued on page

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there is no overt censorship, indiscretions can result in a shortage of paper, according to local sources.

Thousands of residents of two of the poorest and hardest-hit communities, Colonia Tepitco and Colonia Morelos, staged a demonstration September 27 protesting they had not been provided with drinking water, food, or the supplies with which to rebuild their homes. Their concern was that the money would be used to reduce the country's staggering national debt.

Some people whose houses had remained intact nevertheless found themselves without shelter. Evictions increased dramatically as landlords sought to take advantage of the soaring rents that followed the quakes. Newspapers reported that payoffs were made to building inspectors by owners of unsafe restaurants and nightclubs who wanted to remain open.

The government has taken steps to stem the corruption. A Senate statement called for "strict and speedy prosecution" of those taking advantage of the disaster. Price hikes by funeral homes resulted in fines against 17 operators, according to the Secretary of Commerce. Sanctions were also imposed against 3,075 other businesses accused of price gouging.

An Air of Cynicism

Despite well-publicized official reactions aimed at stopping such practices, feelings of wariness and cynicism pervaded the ranks of rescue workers. Dr. Scott Ferris, in charge of medical operations at the Salvation Army's clinic in Colonia Morelos, heard of a commitment for several millions of dollars from the state of Texas. "I told them, under no circumstances send money," he said. Instead, they are sending supplies to outfit the clinic's lab.

Poor communication between the rescue teams resulted in doctors standing around in some places when they were needed at others. One rescue center had obtained radio equipment, capable of serving as a communications coordination center, that was yanked after a few hours by Mexican soldiers. The reason, said one health care organizer, was that the sophisticated electronic gear represented the intrusion by the U.S. government. He asked that neither his name nor that of the center be divulged, citing potential loss of cooperation from the Mexican authorities.

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VIEWPOINT/

Cleveland Lane

Mexico's Earthquake Heroes

The Mexican people performed countless acts of heroism and sacrifice in the aftermath of the September 19th earthquake which ravaged the capital and three states. Thousands pitched in, digging through the rubble and taking the injured to hospitals in their own cars. Church, student, professional and civic groups as well as the public sector — both national and foreign — rallied to provide immediate emergency aid, relief coordination and fundraising for reconstruction.

Unfortunately, official Mexican government actions have only added to the disaster. Faced with a tragedy that left close to 10,000 dead and $4 billion in property damage, Mexico's ruling Institutional Revolutionary Party (PRI) has shown itself to be unable to react responsibly and effectively, even for humanitarian purposes.

Some observers of the odd official behavior cited Mexico's extreme sense of national pride in the government's initial refusal to accept offers of aid from around the world. Others maintain that this rigid and unrealistic stance merely reflects the PRI's feverish need to assert its total control of the country, as it has done for the last 55 years. Trained international disaster teams stood at the ready while the PRI-led government deliberated and finally set up a bureaucratic fund through which all foreign aid was to be channeled.

President de la Madrid's pledge that there would be a full accounting of donations was met with skepticism. He made a similar pledge regarding international relief funds donated to victims of the November 19, 1984 San Ixhuatepec gas plant explosion that killed 500 people. To date, no accounting of these funds has been made, and surviving victims have received no benefits whatsoever.

A disproportionately high number of collapsed structures were built by or for the government using shoddy materials and faulty construction. This has led to speculation of corruption and collusion between builders and inspectors. An official investigation has been promised. Allegations of misuse of donated relief items, including their resale, are constant. The *Washington Post* reported that Mexico City police sought bribes as they held up truckloads of relief supplies.

On October 12th, the government expropriated 7,000 properties in downtown Mexico City to be used for public housing projects. Again, the government's measures will only compound problems for the 250,000 left homeless by the earthquake. First, funds for a project of that size are simply not available. Mexico owes $12 billion a year in interest alone on its foreign debt. On the day of the earthquake, the International Monetary Fund (IMF), citing the nation's lack of economic development, canceled Mexico's line of credit. (The IMF has since granted a six-month grace period.) Second, the massive expropriation has shaken business confidence. This will lead to increased flight of domestic capital and hesitation on the part of foreign investors. Third, there will be little incentive for private owners to begin construction if they fear government may seize their property at any time.

On the positive side, private groups are organizing to resolve problems and provide aid at their own initiative. Twenty Mexican associations, including three student groups, lawyers, accountants, agrarian specialists, and businessmen have joined to form the Civic Solidarity Center. Its activities include coordination of relief efforts to avoid duplication; identification of those in need and putting them in contact with others who can help; fundraising for reconstruction and rehabilitation; and service as an information clearinghouse for project identification and coordination with government and foreign relief efforts.

Mexico's ruling party has shown itself unable to react responsibly, even for humanitarian purposes.

The Civic Solidarity Center has already had a major impact in organizing and coordinating the placement of students from over 150 destroyed public schools into half-day sessions in private or parochial schools.

Also, the American Chamber of Commerce of Mexico has formed an Earthquake Reconstruction Task Force to raise funds from their U.S. corporate members for high priority reconstruction efforts such as the rebuilding of hospitals, the restoration of telecommunications, and the creation of new jobs for the 100,000 left unemployed by the earthquake.

Diplomats and political observers agree that the creaking, inefficient machinery of the ruling PRI, headed by President de la Madrid, proved totally unable to respond to the demands of the situation.

Squads of rescue volunteers — groups of youngsters with masks over their faces, tearing around and waving red flags — became important symbols in the city.

"They can't do anything, so we'll do it," was the refrain, starting a wave of self-help groups whose energy and independence runs directly contrary to the established pattern of Mexican politics where no one moves, no one makes waves, and everyone waits patiently for his reward.

Although few observers expect any profound changes in the Mexican system, they agree that the government's shortcomings after the earthquake showed it to the world in a bad light.

Other abuses have emerged to make the government feel uncomfortable, notably the plight of female textile workers in the city center, many of whom died in factory collapses.

That discovery was just one more cause for Mexico's powerless left-wing parties, which have been galvanized and, for once, united by the disaster. They greeted with howls of joy the recent nationalism of 525 acres of private land to build low-cost housing for those left homeless.

No analyst expects left-wingers outside the PRI to make any political gains from the quake, but many detect a more radical attitude in the capital which they feel might make the government more inclined to at least listen to them.

Becoming more and more remote from the mass media of Mexico's 77 million people as he wrestles with problems of international finance, de la Madrid might well be tempted to take some ideas from the left. ■

The author is the president of the Washington-based Council for Democracy in the Americas.

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The Wall Street Journal, October 15, 1985, pp. 1 and 10

Nation in Jeopardy

Earthquake Aftermath Points Up Weaknesses Of Mexican Leadership

Citizens Scorn Ruling Party For Inaction, Inefficiency; Big Boost for Dissidents

Rebuffing the Yankee Giant

By Steve Frazier
And Mary Williams Walsh
Staff Reporters of The Wall Street Journal

MEXICO CITY—As soon as the ground stopped shaking, Mexico's political system started to tremble.

Moments after a massive earthquake shattered downtown Mexico City last month, private citizens raced to pull their neighbors from the rubble. Private construction companies sent bulldozers into the streets, not waiting for the lumbering public bureaucracy to respond.

Residents of the stricken city soon realized the system was letting them down when they needed it most. The first government employees to hit the streets were army troops, not rescue squads. And for a crucial 36 hours—while volunteers clawed for survivors under tons of cement and steel—top officials tried to preserve an image of self-reliance by refusing specialized foreign help.

MEXICO

BORROWED TIME
LAST OF A SERIES

"They sacrificed concrete lives for abstract ideas," says Enrique Krauze, a historian and editor of a political journal here. "The earthquake certainly showed, in many ways, the rigidity of the system."

The Mexican system—embodied in the Institutional Revolutionary Party (PRI)—has justified 56 years of one-party rule by claiming to provide for the needs of its widely diverse constituents better than a plurality could. PRI rule has been marred by glaring faults—bureaucratic inefficiency and corruption, blind nationalism, overcentralization in a congested capital city—but Mexicans have stoically accepted these as part of everyday life. In the trauma of the earthquake, though, the same faults seemed to awaken a deep anger that isn't fading with the sense of emergency. The system has failed before but never so resoundingly in front of so many desperate people at once.

Remarkable Flexibility

None of this suggests that the PRI has lost control of Mexico—or is about to. As much as any political apparatus anywhere, this broad-based political coalition has demonstrated a remarkable flexibility in crisis. And it seems to possess an uncanny instinct for moving to the right or to the left at crucial moments.

Nevertheless, the failure of the system this time has wrought the unthinkable: People are fending for themselves, outside the system—behavior that is anathema to the Mexican ruling elite and its machine, the PRI. For Mexico's president, Miguel de la Madrid, what began as a natural disaster has become a political turning point, compared by many to the nation's last big watershed, a student movement that ended in bloodshed a generation ago and shaped 20 years of economic policy.

"This is a much bigger deal than 1968, that's for sure," says Carlos Monsivais, a political columnist for the liberal newsweekly, Proceso. "It's the most complex situation we've confronted in a century."

All over the city, independent groups have sprung up, feeding victims, dispensing medicine—and either rejecting government help altogether or making sure it goes through private hands. Teen-agers have formed teams, spraying names like "the Spider Brigade" or "the Untouchables" on vans and cruising the streets with drinking water and supplies. Some groups are offshoots of established opposition parties; others are new brigades organized by neighborhoods, private universities or even furniture stores.

Slogans on the Walls

Six-table taco stands now are packed with citizens listening to dissident leaders who a month ago had no following. Slogans appear on cracked walls: "The aid is being stolen by the PRI and we are in the streets" or "Forward with the organization."

"Mexico will not be the same after this catastrophe," says Federico San Roman, a psychiatrist and social critic. "We Mexicans know, for the first time in decades, that we are capable of organizing ourselves and even surpassing government organization."

Consider Fernando Javier, a 22-year-old now running a tent city in a downtown park. A month ago, he was spending his days selling binoculars in his father's store and shunning politics. But the earthquake electrified him. In the hours after the first quake, he pulled a family of four alive from a fallen condominium as a crowd cheered. Inspired to tears, he then went out and built a shelter for the homeless.

When city politicians showed up at the park, inviting the homeless to an official shelter, he watched the tent-dwellers chase the politicians away. "They said they didn't want anything to do with the government or its institutions, because the government pressures people, and after such a terrible tragedy people didn't want any more pressure," he says. "The earthquake

Please Turn to Page 10, Column 1

Continued From First Page

woke people up with regard to the government."

In many ways, it was a rude awakening:

—When rescue teams cleared the concrete away from the foundations of the fallen building that housed the attorney general's office, they found the bodies of four Colombians and several Mexicans bearing signs of torture, according to relatives and to opposition political parties. PRI deputies voted down a proposal by opposition parties to demand an explanation from the attorney general. At a brief press conference last week, the attorney general left many questions unanswered but denied that the group of prisoners had been tortured and said their injuries were caused by the earthquake. Even the tame Mexican press booted at the denials, and now there are calls to end what is being called a cover-up. For its part, the Colombian embassy says it is investigating the possible torture of Colombian citizens. An embassy official says one of its citizens who survived the earthquake gave a detailed statement to the embassy that she and other Colombians had been held incommunicado by the Mexicans without charges for several weeks before the earthquake. The Colombian citizen, according to the embassy official, said she and her compatriots were repeatedly tortured with cigarette burns, electrical shocks and beatings.

—When an apartment building housing hundreds of mariachi musicians at touristic Garibaldi Square collapsed, the army cordoned off the rubble. Surviving mariachis say that police officers then sneaked into the ruins and filched trumpets, guitars and money.

—When 52-year-old Ernesto Rosas went to a temporary morgue to claim the bodies of his daughter, sister-in-law and mother-in-law, officials there wouldn't give him the corpses until he paid a bribe. "These people are like human vultures," says Mr. Rosas. "If they were asking me for money, then they were asking everybody for money."

—When a delegation of official wives went on a tour of the devastation, they donned designer fashions, baubles and high heels. Possessionless earthquake victims first stared, then swarmed around the ladies, demanding to know why the government hadn't yet sent them tents or food. Bodyguards pushed the crowd back, and the wives made a getaway.

Mexicans do give their government credit for managing to avert food shortages, epidemics or widespread looting after the earthquake. Large sections of the huge metropolis are functioning as if nothing had happened. The government has scored points by shutting down profiteering food stores and funeral parlors. And Mr. de la Madrid has been trying to avert criti-

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cism by making frequent tours of hard-hit neighborhoods, a secretary at his side taking notes as the residents list their needs. He also recently signed a decree expropriating more than 625 acres of privately owned downtown real estate to be used for earthquake reconstruction projects.

In spite of these short-term successes, it's clear that Mr. de la Madrid isn't planning to solve anything with old-fashioned populism. His reactions to this major natural disaster have been sober, cautious and low-key. But his caution is viewed by some as ineffectiveness, and he seems to overlook natural opportunities to mobilize political support. More than a week after the first earthquake, for example, no one in the administration had even approached Fidel Velasquez, Mexico's most important labor czar and one of the PRI's most potent leaders, about how to mobilize the thousands of unionists at his command.

But while the president hesitates, tangible warnings of an erosion of power appear. Mexico City residents who first were angered by the sluggishness of their municipal government during the crisis now complain that they had no voice in selecting their own mayor in the first place. The highest official in the nation's political, financial and cultural capital—home to nearly a quarter of the country's population—is a presidential appointee. "This is the first time everybody agrees we need to elect the mayor," says Mr. Monsivais, the political columnist. "It's not a demand—it's a necessity."

Shocking Massacre

The last time a catastrophe roused the public this way was in 1968, the year government troops gunned down hundreds of students, office workers and housewives as they staged a rally in a downtown plaza called Tlatelolco. The massacre shocked the nation, and the reverberations continued for years. Up until 1968, the PRI had worked smoothly as a club of disparate interest groups—labor, farmers, bureaucrats—divvying up slices of a growing postwar economic pie.

No one rocked the boat because everyone had a stake in the system. But the 1968 student movement called attention to social problems, revealing the system's extreme failure to distribute the country's wealth equitably. And the subsequent massacre unmasked the oligarchy's potential for serious repression. Most important for the course of Mexico, the PRI realized it had to include yet another interest group: the modern intellectual left.

To buy the intelligentsia's good will, the PRI began giving it everything a leftist could want. It showered money on new schools and progressive think tanks. It co-opted student leaders by turning them into government advisers. It jetted dissidents around on the presidential plane. It expropriated huge tracts of farm land and turned them over to peasants.

But the solution to the political crisis of 1968 turned into the debt crisis and economic disarray of the 1980s. As government spending soared, so did inflation, something practically unknown in Mexico before the mid-1970s. Instead of reining in spending, the government masked inflation with consumer subsidies on everything from tortillas to subway rides. That threw the government's ledgers off kilter. Meanwhile, officials covered the growing imbalance between the peso and the dollar with huge foreign loans. When the loans went sour in 1982, Jose Lopez Portillo, the then president, made a last awkward bow to the left and nationalized the banks.

By the time Mr. de la Madrid took office a few months later, the leftist movement that had seemed so threatening a decade earlier had been successfully co-opted in classic PRI fashion. But Mexico's growing middle class and private sector had become increasingly alienated from the PRI by years of economic mismanagement and corruption.

"The PRI used to be a party with a platform as wide as the country, and everybody could find room to stand on it," says Andres Marcelo Sada, a leading voice of the Monterrey industrial clique and a supporter of the conservative PAN party. But in the last 12 to 15 years, he adds, the PRI's platform cut off the right.

The political and economic aftershocks of the current emergency may prove to be as seminal as those following 1968. No one suggests that Mexico is another Nicaragua, where President Anastasio Somoza's callous mishandling of the 1972 earthquake sowed the seeds of his eventual ouster. But the Mexican earthquake did convince many of today's young people that their government is ineffective, just as the hail of bullets 17 years ago taught their parents it was repressive.

PRI officials, unnerved by the independent agitation, are making appearances all over the earthquake zone. "As long as people aren't conscious, they're safe," one city government official warns. "Now they're (politically) conscious, and that makes them dangerous."

At a fallen hospital, the PRI handed out jackets. In the faded and now heavily damaged middle-class Roma neighborhood, PRI officials wore bright red, white and green badges. One official of the PRI-affiliated peasants' union roamed the streets offering to mobilize tens of thousands of rural poor; he had no takers. In Congress, PRI deputies made speeches promising to assist the most densely populated earthquake disaster area: Tlatelolco, the same neighborhood that witnessed the massacre of 1968.

Tlatelolco's Troubles

Tlatelolco is a vast district of high-rise housing projects, home to hundreds of lower-middle-class families and to poor people subletting maids' rooms and parking-garage stalls. After the high-rises were built in the 1960s, they developed clogged drains, shaky foundations, leaks and tilts. The residents formed lobby groups to make repairs. When one apartment tower collapsed in the earthquake and others were left uninhabitable, residents were already organized.

The various groups agree hundreds of deaths might have been averted with better government maintenance. But now they are splitting into pro-PRI and anti-PRI factions. PRI backers say government intervention now will help; independents say government intervention now will mean a government cover-up.

"They (the PRI) want to take the organization into their own hands," says Luciano Allanprese, who runs an emergency food station at the site of the 1968 massacre. "They are trying to channel and control the discontent."

Enrique Krauze, the historian, thinks people have been too deeply disillusioned to be channeled now. "It's going to be impossible to co-opt this, the way the PRI co-opted everybody after 1968," he says. People may vanish back into their homes, he says, "but they'll still be there—deeply, even dangerously, dissatisfied."

Enormous Challenge

Quelling that dissatisfaction is the enormous political challenge now facing Mr. de la Madrid. After three years of austerity that bit hardest in Mexico City's working and middle-class neighborhoods, the earthquake has done him no favor by striking hardest in precisely the same places.

His previous attempts at rallying public confidence in the system have fallen flat. He offered to modernize Mexico by cleaning up corruption and opening up the electoral system, but entrenched powers within the PRI blocked both efforts. Leaning too heavily on eagerly offered U.S. aid doesn't seem possible; Mr. de la Madrid made that clear by initially rejecting outside help after the earthquake, and newspaper editorialists are busy warning the public that just because Mexico has suffered a disaster, it can't become too cozy with the Yankee giant.

What his course will be now is totally unclear—but crucial. And in spite of the Mexican populace's alienation with its government, it is clear that Mexicans still look to the PRI for a steady hand from above, if only out of reflex.

On the night the second earthquake hit, families rushed into the streets a second time, sobbing and praying and looking for help. With no place else to turn, many of them walked through the streets to the National Palace, where the president traditionally appears on the balcony during parades and state occasions. The crowd stared expectantly upward but the president—who still hadn't addressed the nation after the first earthquake—didn't appear. The building stood silent, and then there was a crumbling noise as some masonry fell. The people turned away.

"They realized," said one government official who watched the scene from his office, "that the government is in the same boat they are."

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WASHINGTON POST
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p. A17

Medical workers treat a baby [illegible]

Mexicans Blame Bureaucrats

President Generally Escapes Censure for Problems After Quake

By Edward Cody
Washington Post Foreign Service

MEXICO CITY, Sept. 27—Several days after a devastating earthquake shook Mexico City, causing thousands of deaths, police received orders to pull over volunteer rescue workers speeding up and down the streets with horns blaring and red flags flying.

The outpouring of everyday Mexicans willing to help deal with their capital's crisis—and eager to race through traffic lights on the way—was perhaps the most obvious immediate political fallout from the Sept. 19 earthquake that has gone down as the deadliest in Mexico City history.

[Another tremor, measuring 5.0 on the Richter scale, shook Mexico City for less than a minute late Friday night, causing buildings to sway and panic among residents, but there were no reports of new casualties, according to news services.]

In a capital notorious for a powerful bureaucracy and a passive population, the people seemed to rise to the occasion more vigorously and swiftly than the city or national government. In the first few days of rescue efforts, for example, students and other volunteers spontaneously climbed into the rubble in search of victims while others used their cars as ambulances to ferry the injured to hospitals.

They often worked at considerable risk without orders or official supervision. Sometimes the volunteers worked while Mexican Army troops stood idle with G3 rifles in their hands, guarding against looters who never seemed to come.

As the first shock of disaster wears off, Mexicans have begun to grumble, perhaps inevitably, about how President Miguel de la Madrid's government responded to the gravest national emergency it has faced since his election three years ago.

Attention has focused quickly on the political consequences of Mexico's tragic earthquake because a similar disaster in Nicaragua in 1972 became as a factor in President Anastasio Somoza's downfall to the Sandinista rebel movement 6½ years later.

The Nicaragua of Somoza in 1972 was vastly different, however, from the Mexico of de la Madrid in 1985. In a demonstration of the unusual political system that has evolved over decades in Mexico, the griping here seems so far to center on the bureaucracy rather than the political leadership embodied by de la Madrid and his Institutional Revolutionary Party.

This reflects the peculiarly Mexican political atmosphere in which the party has truly become institutional, anchored by a half century of uninterrupted rule. Its leader, picked by his predecessor and then ratified as president by elections, assumes an almost noble remove that reduces or at least lessens the impact of political or popular nagging.

In addition, de la Madrid has seemed to exhibit a concern and presence enhancing his role as the country's leader, appearing on television shortly after a second earthquake and making daily tours of the hardest-hit neighborhoods. A number of Mexicans commented that the president, ordinarily a stiff figure with a remote style, seemed more familiar and at ease than ever before as he sought to reassure the people.

Observers with long experience here warned that the president still faces the challenge of demonstrating that he can move the bureaucracy into helping people deal with the consequences of disaster over many months. Otherwise, they added, an already perceptible estrangement from entrenched and often corrupt government offices could develop into political bitterness with dangerous long-term repercussions for de la Madrid or his successor as head of this nation of nearly 80 million.

> *"Now that the bureaucrats have shown their abilities, the people have quaked."*
>
> —Political cartoon

The task cannot be easy. While Mexican officials have not calculated total earthquake damages, the National University's Engineering Institute has put them at $2 billion. Mexico already pays an estimated $12 billion a year in interest payments on its $96 billion debt. The $1 million gift check brought this week by Nancy Reagan would have been spent on interest alone before she left the city if it had been intended for Mexico's long-term financial problems.

Although by American standards de la Madrid's personal appearances were modest and his visibility low during the week of crisis, Mexican political traditions and de la Madrid's success in striking the right tone on television so far have left the bureaucracy that few love anyway as the main target of public criticism.

"Now that it has quaked, a number of bureaucrats have shown their abilities to the people," said one man in a cartoon in the liberal newspaper Jornada. "And now that a number of bureaucrats have shown their abilities, the people have quaked," responded a second figure.

Some of the quaking is being done by former residents of the Nuevo Leon government apartment building, which collapsed with the loss of hundreds of lives. Survivors have been lining up daily at the National Popular Housing Fund, many of them wearing casts and bandages, to demand more help getting along until they find new houses or apartments. They also complain that warnings about flaws in the construction were ignored before the earthquake.

"This is the responsibility of the federal government and the whole country, not just us," the fund's director, Enrique Ortiz, told reporters who asked about the demands.

His bucking of responsibility toward the national government, ultimately to the president, illustrated another source of contention underlined by Mexicans and foreigner observers. Unlike most other large cities, this sprawling capital is governed by appointed officials, without any elected city council or other representative body. The lack of accountability has intensified the tendency to put the bureaucracy at the center of public resentment, they said.

Luis Carbajal of the Mexican Workers Confederation, the ruling party's national labor organization, reported another source of public wrath well known in Mexico. He told the newspaper Jornada that police from the Mexico City federal district seeking bribes are holding up truckloads of relief supplies from outlying provinces. In addition, diplomats reported some foreign aid arriving at Mexico City's giant airport was stolen before reaching earthquake victims.

Mexicans have speculated widely as well about possible corruption in implementation of building codes, contending that some buildings collapsed because of shoddy materials while neighboring structures held firm. The Unified Mexican Socialist Party, the country's communist organization, has declared that it will seek a legislative investigation and Mexico City's appointed mayor, Ramon Aguirre, announced a separate administrative inquiry.

Other grumbling has centered on what many Mexicans and foreign specialists saw as lack of coordination in rescue efforts. Mexican officials at one of the most tragic sites, clothing factories where hundreds of seamstresses were buried under rubble, were still arguing about who was in charge a week after the earthquake. Other examples around the city prompted the newspaper Excelsior to write, without tracing responsibility beyond a faltering bureaucracy:

"Lack of water threatens to set off epidemics and distribution of the liquid is deficient; aid is not distributed rightly among victims; there is too much heavy machinery in some places and not enough in others; lists of those buried, injured, disappeared and supposed trapped alive are duplicated, triplicated and quadrupled, causing confusion."

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Washington Post, September 26, 1985, p. A29

Fallen Building Focus of Debate

Quake Victims Questioning Governmental Construction

By William A. Orme Jr.
Special to The Washington Post

MEXICO CITY, Sept. 25—Construction crews moved with cranes and bulldozers today into the crumpled ruins of the Edificio Nuevo Leon, the largest of the scores of government-owned apartment buildings demolished by last week's earthquake and the structure whose collapse is believed responsible for the largest single loss of life.

Erected in 1962, before the city's 1976 adoption of a stricter antiquake building code, the building is at the center of both domestic controversy about allegedly irresponsible governmental construction practices and the growing international interest in the Mexico City earthquake's lessons for other quake-prone cities.

The last of the fewer than 30 persons who emerged alive from the shattered apartments was extricated from the rubble late Monday. Two of the building's three 90-apartment units were knocked on their backs by the earthquake. It is not known how many of the estimated 1,200 residents were inside at the time, said Francisco Melendes, a borough government spokesman at the site today.

As recently as last month, Nuevo Leon residents complained to authorities that cracks left in its foundation by previous tremors appeared to be widening. Government inspectors examined the building and pronounced it safe, said representatives of tenant associations, who asked Mexico's Congress today to conduct an inquest into possible civil and criminal violations of the city's earlier construction code. It was drafted after Mexico's last big earthquake in 1957, and once was considered a model for such legislation.

But the Edificio Nuevo Leon's collapse may have been due less to structural flaws than to the combination of its high-rise design and its location atop the city's muddy subsoil, a partially dried former lakebed, a U.S. anti-earthquake engineering specialist suggested as he toured the site today.

Seismically, Mexico City has "very peculiar characteristics," explained Mete Sozen, a University of Illinois structural engineer. Its soft substructure "amplifies the energy" of earthquakes, he said, often making them far stronger than their force on the Richter scale would indicate.

"The ground here Thursday was moving back and forth by about 20 centimeters every two seconds, much more slowly than it would in an earthquake in a city like Los Angeles or San Francisco," said Sozen, one of five members of a special research team sent here Saturday by the U.S. National Academy of Sciences and the San Francisco-based Earthquake Emergency Research Institute. That steady swaying motion accounted for the fact that squat, stone Spanish colonial buildings "that would have crumbled to the ground" in California survived here Thursday almost unscathed, he said.

"I haven't seen evidence of faulty construction," but the Nuevo Leon building could have been doomed simply by its narrow, shoebox-like shape and the unusually violent, "almost liquid" motion of the soil on which it stood, Sozen said.

As fumigation teams today sprayed disinfectants on the toppled building, attention began to turn to the condition of the remaining buildings in the huge Tlatelolco apartment block, consisting of 102 buildings and 80,000 residents, that is Mexico's largest public housing complex.

Of immediate concern to Tlatelolco residents is the fate of a dozen buildings similar to the Edificio Nuevo Leon that have been evacuated and provisionally condemned. More than 10,000 tenants were evicted and many fear they may remain homeless for weeks or months.

"They shut us out, and they haven't told us anything officially since," complained Augusto Nava. His family, like hundreds of others, moved out of its building and pitched a tarp in the nearby Plaza of the Three Cultures.

The three cultures are those of the Aztecs, represented by a reconstructed temple where one of the last Aztec kings was invested 470 years ago; the Spanish, as seen in a colonial church, and the Mexican culture that emerged from those two strains. The latter is represented by the skyscraper Foreign Ministry.

The plaza was the site of a 1968 massacre in which dozens of leftist demonstraters were killed by anonymous gunmen who, it turned out, were deployed by the Interior Ministry. Today the grassy plaza took on the oddly bucolic air of a campground as bright nylon tents stood next to ancient Aztec walls and volunteer medical workers dispensed oranges and tetanus shots.

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sec. 1 p. 5
Sept. 27, 1985

Much quake damage laid to poor building

By Storer Rowley
Chicago Tribune

MEXICO CITY—Faulty construction, poor building materials and political corruption or lax enforcement of city building codes were being blamed by experts Wednesday for much of the death and destruction caused during last week's two earthquakes.

But engineers, architects and demolition experts said in interviews that the city's location on an ancient lake bed and the magnitude of the quakes, 8.1 and 7.5 respectively on the Richter scale, were major factors in the disaster.

U.S. Geological Survey experts, after reviewing their measurements Wednesday, upgraded the magnitudes from the 7.8 and 7.3 reported last week. The new 8.1 reading on the first quake classifies it as the first "great" one since a South Pacific quake in 1960.

The confirmed death toll stood Wednesday at 4,596, with at least 11,000 people still missing.

President Miguel de la Madrid ordered a revision of building codes and maintenance and inspection standards as criticism mounted, and he said his government will consult experts on how construction can be made more safe.

Meanwhile, demolition teams from the U.S. and other countries started wiring the tallest of the weakened buildings with explosives because of danger that recurring tremors could bring them down and cause more casualties.

At least 51 tremors have occurred since the two big quakes last Thursday and Friday. The largest aftershock measured 5.5 on the Richter scale.

"There were clearly some" deaths that may be related to faulty construction, said Carlos Noriega of the College of Architects, a professional group, "but how can we say how many?"

In some cases, buildings that appeared identical in construction sustained widely varying degrees of damage, often with one left standing while an adjacent structure was leveled.

Government engineers were reluctant to blame the Mexican government, which some experts said built or supervised construction of as many as 90 percent of the damaged structures.

"It will take months to figure out why one building fell and a similar one didn't," said Ignacio Patio, an engineer for the Federal District, which embraces Mexico City. "It could be a matter of the way they were constructed, or the way different jolts hit them."

But a U.S. demolition expert, inspecting the Centro Urbano Presidente Benito Juarez government housing complex, where one 10-story structure fell and others were cracked, said, "Structurally, these buildings are not built to withstand earthquakes."

But he noted that damage to individual buildings "depends on the wave of the earthquake. It is a cyclical wave and it touches each building differently. Ground conditions vary from place to place."

After a devastating earthquake in 1957, the city's worst in modern times before last week, the government adopted strict building regulations.

One diplomat said the pattern in last week's first earthquake was that "some of the older buildings collapsed, but more frequently it was the newer kind of schlocky buildings which went up fast and presented a very real problem.

"A lot of the public buildings that came down were built high in cost and low on quality," he said, noting that local officials often channel work to contractors who are relatives or friends.

It is also easy and commonplace here to offer bribes to officials to ignore building code violations, and the practice frequently allows substandard construction, the diplomat said.

No one has filed a formal complaint alleging building code violations stemming from the quakes. But residents of a building destroyed in the Nuevo Leon apartment complex charged this week that the government-built structure, where as many as 2,000 people may have died, was built of inferior materials to save costs.

Most of the buildings that fell along Paseo de la Reforma, the city's main thoroughfare, were built to withstand a jolt of up to 9 on the Richter scale, the engineer said. To make them stronger would cost 30 to 40 percent more, he said, and the builders probably pocketed that difference.

In addition, he said, "lots of politics" have been played since the recent quakes. While government inspectors have been certifying many damaged buildings as safe, his firm has already received requests to reinspect some of those buildings on Reforma because the owners did not trust the inspectors.

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8. Law of the Sea and Fishing Border Issues of a Legal Nature

Law of the Sea, Tuna Issue, Maritime Boundary Treaty

Law of the Sea

Since the conclusion of the Law of the Sea (LOS) Conference in 1982, bilateral issues other than fisheries and marine scientific research have been quiescent. Mexico was among the more moderate Third World advocates and played a constructive role during the negotiations. It believes that deep seabed mining can lawfully be conducted only by Parties to the LOS Convention and in conformity with the rules and regulations established pursuant to Part XI of the LOS Convention by the International Seabed Authority, and in the interim, prior to entry into force of the LOS Convention, by the LOS Preparatory Commission for the International Seabed Authority in which, by decision of President Reagan in December 1982, the United States does not participate. The Preparatory Commission has been unsuccessful to date in achieving its primary objective of resolving international mining conflicts between pioneer mining interests.

Tuna Fishing Issue

The United States and Mexico disagree over the jurisdiction for highly migratory tuna. Negotiations to resolve the dispute broke down in 1980. Later that year, Mexico seized US tuna boats in its 200-mile Exclusive Economic Zone. The Department of State then imposed the legislatively mandated embargo on Mexican tuna under the Magnuson Act.

Although there have been no boat seizures by Mexico since 1983, the underlying differences remain, and the US tuna industry is concerned that destabilization of the US market might occur if the embargo were to be lifted. Yellowfin tuna imports from Mexico are also banned until Mexico complies with the Marine Mammal Protection Act.

Mexico has agreed to resume regional tuna negotiations and has expressed willingness to institute voluntary tuna export restraints once the US embargo is lifted. It has also pledged compliance with the Marine Mammal Protection Act. US industry and its congressional supporters oppose lifting of the embargo until Mexican export intentions are clear.

Maritime Boundary Issue

A US-Mexico Executive Agreement in 1976 defined the Pacific and Gulf of Mexico maritime boundaries. Subsequently, the boundaries were incorporated in a 1978 treaty ratified by Mexico in 1980 but never brought to a vote in the US Senate.

Both countries recognize the boundaries provisionally. We have explored this issue and determined that ratification by the Senate would be difficult at this time. We have concluded that it is not in either country's interest to pursue ratification at this time. We will seek ratification when the time is right.

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UNITED NATIONS

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Agenda item 36

LAW OF THE SEA

Report of the Secretary-General

INTRODUCTION

1. The 1982 United Nations Convention on the Law of the Sea 1/ continues to enjoy wide support among States, as evidenced by the unprecedented number of signatures appended to it and the growing number of ratifications. Even before its entry into force, the Convention is exerting a considerable influence on all aspects of the law of the sea, as well as on marine affairs in general. Some of the important developments are highlighted in the present report, which is submitted to the General Assembly in compliance with its resolution 39/73 of 13 December 1984 requesting the Secretary-General, inter alia, to report on the developments relating to the Convention and on the implementation of that resolution. The report is divided into two parts. Part One contains an overview of the impact of the Convention on State practice and on the mandates and activities of international organizations concerned with marine affairs, decisions of the International Court of Justice and other tribunals, and information on other developments relating to the law of the sea. Part Two outlines the activities of the Office of the Special Representative of the Secretary-General for the Law of the Sea in the discharge of its mandate under the medium-term plan. The present report is the second of such reports submitted to the General Assembly; the first report was submitted to the Assembly at its thirty-ninth session (A/39/647 and Corr.1).

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PART ONE

DEVELOPMENTS RELATING TO THE UNITED NATIONS CONVENTION ON THE LAW OF THE SEA

I. STATUS OF THE CONVENTION

2. The United Nations Convention on the Law of the Sea closed for signature on 9 December 1984, having received a total of 159 signatures.

3. Upon signature, 36 States and one of the entities referred to in article 305, paragraph 1, made declarations under article 310 of the Convention. Among those, six States 2/ made declarations in accordance with article 287 with respect to the choice of procedure for the settlement of disputes concerning the interpretation or application of the Convention and one entity 3/ made a declaration in accordance with annex IX, article 2 of the Convention. Declarations made upon signature were issued by the Legal Office and are also included in The Law of the Sea - Status of the United Nations Convention on the Law of the Sea, 4/ prepared by the Office of the Special Representative of the Secretary-General for the Law of the Sea (see annex).

4. In accordance with article 308, paragraph 1, the Convention will enter into force 12 months after the date of the deposit of the sixtieth instrument of ratification or accession. As at 19 November 1985, 25 instruments of ratification have been deposited with the Secretary-General, as follows: Bahamas; Bahrain; Belize; Cameroon; Cuba; Egypt; Fiji; Gambia; Ghana; Guinea; Iceland; Iraq; Ivory Coast; Jamaica; Mali; Mexico; Philippines; Saint Lucia; Senegal; Sudan; Togo; Tunisia; United Republic of Tanzania; Zambia and the United Nations Council for Namibia.

5. Upon ratification, five States (Cuba, Egypt, Iceland, the Philippines and Tunisia) made declarations under article 310 of the Convention. Bulgaria, the Byelorussian Soviet Socialist Republic, Czechoslovakia and the Union of Soviet Socialist Republics have lodged objections to the declaration of the Philippines on the grounds that it is incompatible with article 310 of the Convention. It will be recalled that article 309 provides that no reservation or exceptions may be made to the Convention unless expressly permitted by other articles of the Convention. Under article 310, however, States are entitled to make declarations or statements. Article 310 reads as follows: "Article 309 does not preclude a State, when signing, ratifying or acceding to the Convention from making declarations or statements, however phrased or named, with a view, inter alia, to the harmonization of its laws and regulations with the provisions of the Convention, provided that said declarations or statements do not purport to exclude or to modify the legal effect of the provisions of the Convention in their application to that State." The texts of declarations made by these States were issued by the Legal Office and are also included in The Law of the Sea - Status of the United Nations Convention on the Law of the Sea. 4/ This publication also contains other declarations, objections or notes with respect to declarations made upon ratification.

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II. STATE PRACTICE AND NATIONAL POLICY

6. The provisions of the Convention have continued to exert an important influence on the development of national policy with respect to law of the sea matters. Since the submission of the report of the Secretary-General to the thirty-ninth session of the General Assembly (A/39/647 and Corr.1), further developments and trends in national policy regarding marine affairs are to be noted. From the information received or collected by the Office of the Special Representative of the Secretary-General for the Law of the Sea, it is seen that a number of States have adopted national legislation dealing with a variety of marine issues, which, in particular, relate to such matters as the determination of the baselines, the breadth and status of the territorial sea, the establishment of exclusive economic zones, the definition of the continental shelf and the delimitation of maritime boundaries between States with opposite or adjacent coasts.

7. The Convention has set clear limits for areas falling under national sovereignty and jurisdiction - a limit of 12 nautical miles for the territorial sea, 24 nautical miles for the contiguous zone and 200 miles for the exclusive economic zone. It was the historic failure to establish specific limits to the territorial sea which gave rise to uncertainty as to the validity of claims to extended areas of territorial seas. The widespread agreement to a 12-mile territorial sea as reflected in the Convention has been increasingly confirmed by the practice of a large number of States.

8. In his report (A/39/647 and Corr.1) the Secretary-General had noted that some 80 States have established territorial seas of 12 nautical miles. Since then several States have enacted legislation on the territorial sea. Among the latter group of States, five have adopted a 12 mile territorial sea 5/ and three have adopted legislation setting out specific co-ordinates to establish the outer limits of the territorial sea within the 12-mile limit. 6/ The legislation of two States expressly sets out the legal status of the territorial sea 7/ consistent with the Convention of the Law of the Sea.

9. At present a total of some 89 States have a territorial sea of 12 nautical miles in breadth 8/ while 22 still have legislation establishing the limits of the territorial sea beyond 12 nautical miles. 9/ It is noteworthy that the legislation of these States pre-dates the adoption of the 1982 Convention on the Law of the Sea while recent legislation on this issue has largely conformed to the relevant provisions of the Convention as States continue to harmonize their national legislation with the Convention.

10. There are 79 States from all regions which have promulgated laws or decrees establishing exclusive economic zones or exclusive fishery zones of up to 200 nautical miles. 10/ The new concept of the exclusive economic zone as embodied in the Convention on the Law of the Sea has continued to receive widespread support from the international community. The International Court of Justice itself has stated that this concept "may be regarded as part of modern international law". 11/

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11. As has been noted in the report of the Secretary-General (A/39/647 and Corr.1), an examination of the maritime legislation of States reveals that several of these legislative enactments diverge, sometimes in important respects, from the provisions on the exclusive economic zone as provided for in the Convention. Several of those laws were based on earlier versions of the text, particularly the Informal Single Negotiating Text. 12/ The provisions of these informal negotiating texts were subject to change and indeed were changed over the years. Thus, the legislation of a number of coastal States does not fully reflect all those modifications made to the texts which are now embodied in the United Nations Convention on the Law of the Sea. Some of these modifications represented delicate compromises resulting from difficult and prolonged negotiations. However, some States have already modified their legislation to conform to the relevant provisions of the Convention and others are in the course of reviewing their legislation.

12. With respect to the continental shelf, 16 States have enacted legislation incorporating the concept of natural prolongation as embodied in the Convention. 13/ At least two of these States have enacted legislation incorporating some of the more detailed technical provisions of the Convention. 14/

III. SETTLEMENT OF CONFLICTS AND DISPUTES

13. Expanded coastal States jurisdiction over adjacent maritime areas that has been such a distinctive feature of the new legal régime for the seas has inevitably created several potential conflicts and disputes among States. The Convention, by providing a legal order for the seas, has promoted the peaceful resolution of such conflicts. Moreover, the Convention itself contains a mechanism for the peaceful settlement of disputes concerning its interpretation and application.

14. Several disputes with respect to maritime delimitation have already been resolved either by the conclusion of delimitation agreements or by international adjudication or other forms of peaceful settlement. As an example of the latter, the dispute between Argentina and Chile in the Beagle Channel was submitted to the mediation of Pope John Paul II. Through this mediation Argentina and Chile were able to conclude on 18 October 1984 a Treaty of Peace and Friendship, which, inter alia, dealt with the maritime boundary in the Beagle Channel. Argentina ratified the treaty on 14 March 1985 and Chile on 11 April. On 1 May, both States signed the treaty at Rome in the Vatican. The Parties have begun implementing the provisions of the treaty.

15. Among the recent cases concerning maritime delimitation submitted to third party procedure for the settlement of disputes are the disputes between Guinea and Guinea-Bissau and between Malta and the Libyan Arab Jamahiriya. The first was submitted to an arbitral tribunal and the second to the International Court of Justice. The Court is also seized with an Application for Revision and Interpretation of the Judgment of 24 February 1982 in the case concerning the continental shelf (Tunisia/Libyan Arab Jamahiriya). 11/

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Guinea - Guinea-Bissau

16. On 14 February 1985, the Arbitral Award for the delimitation of Maritime Boundaries between Guinea and Guinea-Bissau was handed down. 15/ The Tribunal was posed with the following questions: first, whether the Convention of 12 May 1886 between France and Portugal - the former metropolitan countries - had determined the maritime frontier between the two west African States; second, whether the protocols and annexes of that Convention were of any juridical value in its interpretation; and finally, in the light of the response to those questions, what was the boundary line which delimited the maritime areas appertaining respectively to Guinea-Bissau and to Guinea?

17. The Award held that the 1886 Convention had not determined the maritime frontier between those two States and that the protocols and annexes played a significant role in the interpretation of the Treaty. The Tribunal noted that the Convention was essentially concerned with land territory.

18. The Tribunal, as it was required, delineated a single boundary covering the territorial sea, the exclusive economic zone and the continental shelf. It is noteworthy that the Tribunal declared that the essential objective of its decision was to reach an equitable solution within the context of articles 74, paragraph 1, and article 83, paragraph 1, of the United Nations Convention on the Law of the Sea. 16/

Libyan Arab Jamahiriya

19. On 3 June 1985, the International Court of Justice handed down its judgement in the case concerning the continental shelf between Libyan Arab Jamahiriya and Malta. The Court was requested to decide what principles and rules of international law were applicable to the delimitation of the continental shelf between Malta and the Libyan Arab Republic, and how in practice such principles and rules can be applied by the two States.

20. In its judgement, the Court stated what principles and rules of international law were applicable to the delimitation of the continental shelf between the two States and the circumstances and factors to be taken into consideration in order to achieve an equitable delimitation. Accordingly, in this case, it declared that an equitable result should be obtained first by drawing between the 13° 50' and the 15° 10' meridians a median line, of which every point is equidistant from the low water mark of the relevant coasts of Malta, on the one hand, and of the Libyan Arab Jamahiriya, on the other, and by then transposing this line northward by 18' and as to intersect the 15° 10' E meridian at a latitude of approximately 34° 30' N. 17/

21. In its decision, the Court made some significant observations on the consequences for the delimitation of the continental shelf between States of the adoption of the concept of the exclusive economic zone as embodied in the United Nations Convention on the Law of the Sea. The following is a brief synopsis of these observations.

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22. The Court noted that, although the case related only to the delimitation of the continental shelf and not to that of the exclusive economic zone, the principles and rules underlying the latter concept could not be left out of consideration. The Court stated that, as the 1982 Convention demonstrated, the two institutions - continental shelf and exclusive economic zone - were linked together in modern law. Since the rights enjoyed by a State over its continental shelf would also be possessed by it over the sea-bed and subsoil of any exclusive economic zone which it might proclaim, one of the relevant circumstances to be taken into account for the delimitation of the continental shelf of a State was the legally permissible extent of the exclusive economic zone pertaining to that State. It added that this did not mean that the concept of the continental shelf had been absorbed by that of the exclusive economic zone; it did, however, signify that greater importance was to be attributed "to elements, such as distance from the coast, which are common to both concepts". 18/

23. A further implication noted by the Court was that since the development of the law enabled a State to claim that its continental shelf extended up to as far as 200 miles from the coast, "whatever the geological characteristics of the corresponding sea-bed and subsoil", there was no reason to ascribe any role to geological or geophysical factors within that distance, either in verifying the legal title of the State concerned or in proceeding to a delimitation as between their claims. 19/

24. In this connection, the Court made some significant comments on the role of natural prolongation on the delimitation of maritime areas. It observed that:

> "the idea of natural prolongation was not superseded by distance. What it did mean was that where the continental margin did not extend as far as 200 miles from the shore, natural prolongation, which in spite of its physical origin has throughout its history become more and more a complex and juridical concept, is in part defined by distance from the shore, irrespective of the physical nature of the intervening sea-bed and subsoil." 20/

25. As the law now stands, each coastal State is entitled to exercise sovereign rights over the continental shelf off its coasts for the purpose of exploring and exploiting its natural resources up to a distance of 200 miles from the baselines - subject of course to delimitation with neighbouring States - whatever the physical or geological features of the sea-bed within the area comprised between the coast and the 200-mile limit. 21/

26. The Court, however, warned that the introduction of the criterion of distance did not have the effect of establishing a principle of "absolute proximity" or of conferring upon the equidistance method of delimitation the status of a general rule, or an obligatory method of delimitation, or of a priority method to be tested in every case. It further observed that the fact that, in the circumstances of the case, the drawing of a median line constituted an appropriate first step in the delimitation process did not mean that an equidistance line will be an appropriate beginning in all cases, or even in cases of delimitation with respect to States with opposite coasts. 22/

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27. The Court, as it has done before, 23/ did not consider that "a delimitation should be influenced by the relative economic position of the two States in question, in such a way that the area of continental shelf regarded as appertaining to the less rich of the two States would be somewhat increased in order to compensate for the inferiority in economic resources". 24/

28. The International Court of Justice has continued to endorse the relevant provisions of the 1982 Convention and to develop in particular the jurisprudence relating to the delimitation of maritime areas by investing the delimitation provisions of the Convention with a specific content.

IV. OTHER DEVELOPMENTS RELATING TO THE LAW OF THE SEA

A. Peaceful uses

29. There has been a growing tendency in the international community to promote the peaceful uses of the oceans. Indeed the peaceful uses of the oceans is a fundamental objective of the Convention on the Law of the Sea. In addition to the Convention, there has been a number of multilateral treaties and instruments which have the same objective. Among them are the Antartic Treaty (1959), the Treaty Banning Nuclear Weapon Tests in the Atmosphere, In Outer Space and Under Water (Partial Test Ban Treaty) (1963), Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco) (1967), the Treaty on the Prohibition of the Emplacement of Nuclear Weapons and Other Weapons of Mass Destruction on the Sea-Bed and the Ocean Floor and in the Subsoil Thereof (Sea-Bed Treaty) (1971) and the various proposals to establish nuclear weapon-free zones and zones of peace. Most of these instruments cover land territories as well as large areas of oceans.

30. Naval arms race. More recently the General Assembly itself has requested a comprehensive study on the naval arms race, on naval forces and naval arms systems, including maritime nuclear-weapons systems, with a view to analysing their possible implications for international security, for the freedom of the high seas, for international shipping routes and for the exploitation of marine resources, thereby facilitating the identification of possible areas for disarmament and confidence-building measures. This study has been transmitted to the General Assembly at its fortieth session in the report of the Secretary-General (A/40/535, annex).

31. The study accords great weight to the impact of the United Nations Convention on the Law of the Sea on the strategic uses of the seas and contains a comprehensive review of the provisions of the Convention which may affect maritime activities and naval operations. It observes that the use of naval forces in the exercise of sovereign rights is legitimate. However, there are sometimes conflicts of interest between naval activities and non-military uses of the sea, just as there are conflicts between latent security threats and the freedom of navigation. It urges that naval activities should take account, inter alia, of the legitimate interests of coastal States and that it is important that such activities should be compatible with the provisions of the Convention.

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32. The study observes that, in the context of naval activities, the early entry into force of the Convention on the Law of the Sea will give strong additional support to the security régime at sea. It therefore encourages its early entry into force and its full implementation.

33. The study notes that the new law of the sea increases the national responsibilities of coastal States and consequently increases the need of many of those States to develop naval capabilities; but it warns, however, that the widened national responsibilities should not be misused as a justification for the expansion and utilization of naval force.

34. The South Pacific Nuclear Free Zone Treaty. A recent example of the continuing trend to promote the peaceful uses of the oceans is the South Pacific Nuclear Free Zone Treaty. This instrument was adopted by the South Pacific Forum at Raratonga, Cook Islands, on 6 August 1985 and will enter into force when eight instruments of ratification have been deposited. The nuclear-free zone established by the Treaty extends from the western shores of the Australian continent to the western coast of the Latin American continent. It stretches north to the equator and south to Antarctica. Thus it abuts on the nuclear-weapon-free zones of Latin America and Antarctica.

35. The Treaty prohibits the use, testing or stationing of nuclear explosive devices in the South Pacific. It leaves to each signatory State the right to decide for itself such questions as access of foreign vessels or aircraft to its ports and airfields. The rights of States under international law with regard to freedom of the high seas remain unaffected by the Treaty. Finally, it prohibits ocean dumping of nuclear wastes in the region.

36. There are three protocols to the Treaty: the first invites France, the United States of America and the United Kingdom of Great Britain and Northern Ireland to apply key provisions of the Treaty to their South Pacific territories; the other two invite the five nuclear-weapon States not to use or threaten to use nuclear weapons against Parties to the Treaty and not to test nuclear explosive devices within the zone. These protocols have not yet been adopted.

B. Maritime law

1. Maritime safety and navigation

37. Work has continued in the International Maritime Organization (IMO) with a view to amending the 1974 International Convention for the Safety of Life at Sea and the 1966 Load Line Convention and adopting a new convention to replace the 1910 Convention on Salvage and Assistance at Sea. A conference is envisaged in 1988 for the first two of these projects. The IMO Legal Committee is continuing its preparation of a draft revision of the Salvage Convention. This involves matters of both private and public law. In this connection, it may be noted that, inter alia, a proposal to provide special compensation to a salvor who has carried out specific preventive measures to protect the environment is under consideration. The fourteenth session of the IMO Assembly has adopted a number of

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DEVELOPMENTS IN MEXICO AND UNITED STATES-MEXICAN RELATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

OCTOBER 16, 1985

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PREPARED STATEMENT OF JAMES H. MICHEL

DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

BEFORE THE

SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS

COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

OCTOBER 16, 1985

Mr. Chairman members of the Subcommittee:

I welcome this opportunity to analyze recent economic and political developments in Mexico and to assess the state of our bilateral relations. This statement is in three parts:

-- The earthquakes of September 19 and 20, 1985.
-- The state of U.S.-Mexico relations before the earthquakes.
-- U.S.-Mexico relations after the earthquakes.

I. THE EARTHQUAKES

I have just returned from Mexico. I knew before going that our neighbors had experienced a tragedy of extraordinary dimensions. I come back impressed by the magnitude of the problems the earthquakes have caused, but reassured by the

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human determination and cooperation they have called forth. I return impressed by the grit and civic spirit of the Mexican people and proud that we have been able to be good neighbors in their moment of disaster.

The earthquakes that hit Mexico on September 19 and 20 were devastating in both human and material terms. Over 7,000 people are confirmed dead, about 30,000 were injured and 50,000 left homeless. Thousands more may have died. Over 400 buildings were destroyed and perhaps 600, damaged beyond repair, will have to be razed. Hospitals were among the hardest hit, particularly by the second earthquake on September 20. The flattened Juarez Hospital, the scene of repeated miraculous rescues of newborn babies, had been a modern, well-equipped facility capable of saving lives, relieving suffering and increasing medical knowledge; today, it is a pile of rubble.

The Mexican Government moved quickly to establish emergency centers to assist the injured and homeless and to maintain the public order necessary for rescue attempts. Countless citizens of Mexico engaged in voluntary rescue and relief efforts. By all accounts, the survivors' efforts to help victims were heroic.

Donations from private organizations and individuals and

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governments from around the world have been impressive. The response reflects the compassion all feel for the earthquakes' victims. An estimated $25 million has been donated by Mexicans and others from around the world for disaster relief.

The US Government participated in the international effort by sending specialized equipment and personnel requested by the Mexican Government. To date, the US government has contributed $4 million worth of materials, specialist assistance and equipment. This includes a $1 million contribution which Mrs. Reagan, on behalf of the people of the United States, gave to Mexican President Miguel de la Madrid for Mexico's national earthquake relief fund.

As Mexico undertakes the enormous task of reconstruction in the midst of increased economic difficulties, the United States, as a good neighbor, is prepared to provide further assistance as may prove possible and desirable.

Reconstruction costs cannot yet be estimated, but will be high, certainly in the billions, to replace and repair damaged housing units; rebuild schools and hospitals and replace lost equipment; repair roads and bridges; and rebuild commercial and governmental offices. The American Chamber of Commerce in Mexico has agreed to oversee the allocation of funds collected in the US for the rebuilding of schools and hospitals destroyed

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by the earthquake. This will be a high priority. Housing, already in short supply before the earthquake, is now critically scarce. The costs of providing food and shelter to the homeless will also be significant.

The World Bank and the Inter-American Development Bank are planning to reprogram a portion of existing loans to help with short term needs and are considering longer term reconstruction loans. The International Monetary Fund has agreed to provide $300 million in emergency funding.

The funding now available from private donations, the international financial institutions, and from the US and other governments, appear sufficient to meet Mexico's short-term needs.

Less immediate needs will have to be identified as Mexico develops its longer-term reconstruction plans. Not everything will be rebuilt as it was and where it was. Questions of urban planning, historic preservation, government decentralization and a host of other issues must be addressed.

The Executive Branch will wish to consult closely with the Congress in the coming weeks, as Mexico's plans evolve, about ways in which the United States can be of further assistance to Mexico's reconstruction effort. Our preliminary thinking is

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that US reconstruction aid might concentrate on support for small and medium businesses damaged by the earthquake, technical assistance and training, transfers of modern technology, and support for cooperative efforts between Mexican and US private voluntary organizations.

II. U.S.-MEXICO RELATIONS BEFORE THE EARTHQUAKE

Relations between the US and Mexico are friendly, mature, extensive and complex. Both countries work hard at maintaining this relationship, as evidenced by the frequent contact between our respective presidents, cabinet officials and elected representatives. Our two presidents meet annually, and Secretary Shultz meets more often with Foreign Secretary Sepulveda than with any other foreign minister; there is an annual Binational Commission Meeting, chaired by Secretaries Shultz and Sepulveda, in which appropriate cabinet officials participate; an Interparliamentary Group meeting is held once a year; and there are constant contacts between other governmental and private entities.

Given the complexity of these relationships and the asymmetry in our societies, occasional differences of opinion are inevitable, but by and large these differences are discussed candidly and respectfully in an effort to find common ground. Cooperation between the governments on matters of

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mutual concern is extensive.

One of the most important elements of our relationship has been US support and encouragement for Mexico's efforts to deal with the severe financial crisis which began in 1982.

President de la Madrid entered office in December 1982, just four months after the onset of that crisis. At that time, the Mexican economy was weakened by a massive foreign debt-service burden, a large public sector deficit, the exhaustion of foreign exchange reserves and triple digit inflation. Consequently, the new Mexican administration was forced to seek emergency assistance and to plan an economic adjustment program to stabilize the economy.

That program, undertaken in cooperation with the International Monetary Fund, under a three-year Extended Fund Facility program, included a major reduction in Mexico's imports (from $24 billion in 1981 to only $8.6 billion in 1983, excluding imports under the border in-bond industries program) a progressive reduction in the government deficit, the rescheduling of Mexico's debts to foreign private banks, and provision of additional external financing. The United States took extraordinary financial assistance measures to help Mexico, including a $1 billion advance payment for oil for the Strategic Petroleum Reserve, Commodity Credit

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Corporation guarantees for US agriculture exports of $1.7 billion in FY 1983 and $790 million in FY 1984; and US cooperation with other central banks in arranging a $18.5 billion short term loan to Mexico.

The results of the first two years of the Mexican recovery program included a strengthening of the balance of payments, an improvement in foreign exchange reserves, a substantial reduction in inflation, and a strengthening of public finances. Mexico's performance in dealing with its debt crisis was widely heralded as a model for other debtor nations.

The society paid a substantial price, however, as the necessary austerity measures affected all socio-economic levels. Real gross national product declined by .5% in 1982 and by 5.3% in 1983. Per capita income dropped 15 to 20%, while unemployment and underemployment increased. In addition, capital investment, the basis for future economic growth, declined drastically.

In 1984, with the accumulation of $7 to 8 billion in foreign exchange reserves, a strong trade surplus of some $13 billion, a current account surplus of $4 billion, and the beginning of recovery in private sector activity, austerity was eased somewhat. GNP growth resumed at about a 3.5% rate, and some improvement in employment occurred. Although GNP

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continued to grow into 1985, a number of problems began to reappear as a result of lower prices for petroleum (which constitutes about two-thirds of Mexico's export income), and a decline in non-oil exports -- resulting in part from the slowdown in the US economy.

Mexico also encountered difficulties in meeting the targets established under the IMF program. A mid-1985 projection showed inflation remaining at 60 percent. The trade and current account surpluses were expected to be much lower than in 1984, and the public sector deficit was predicted to be higher than in 1984. Foreign exchange reserves declined by about 25% in the first half of the year.

In July 1985, the Mexican Government adopted a number of new measures designed to stem the short-term weakening in the balance of payments as well as to accelerate structural reform of the economy. The peso was devalued and placed under a managed float system, steps were taken to liberalize the import regime in order to improve the efficiency of the Mexican economy and the competitiveness of Mexico's non-oil exports; and reductions in government spending, including the dismissal of some 20,000 government workers, were announced. Mexico and the private banks also signed, in July, a multi-year rescheduling of $48 billion in foreign debt.

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These measures seem headed in the right direction. The structural reform measures particularly appear essential to Mexico's efforts to resume sustained, non-inflationary, economic growth and development.

US-Mexico anti-drug cooperation also is an important element in US-Mexican relations, and has been strong and long-lived. Mexico's drug crop eradication program has been one of the world's most successful. For example, Mexican heroin dropped from a 78% share of the US market in the 1970's to about 34% in the early 1980's. Unfortunately, narcotics production has been increasing during the past 2 years while the eradication program was losing some of its effectiveness. In the wake of the murder of DEA agent Enrique Camarena in February 1985, and indications that drug-related corruption had spread widely, the Mexican government took steps to revitalize its anti-drug programs. Police forces have been reorganized to reduce corruption and efforts are underway to restore the effectiveness of the eradication program. The financial cost of the anti-drug program to the Mexican Government is significant, especially in view of its economic difficulties.

In matters of trade, the US and Mexico cooperate closely and continue to seek to reduce commercial frictions. A subsidies agreement concluded in April 1985, for example, helped reduce trade friction and benefited both countries. In

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return for phasing out export subsidies on terms consistent with international practice, Mexico received assurance that proof of actual injury would be required before countervailing duties would be applied against Mexican exports to the US. Discussions on a general trade and investment framework agreement are on-going and, when finished, should provide a vehicle for increased mutually beneficial commerce between our two countries.

The closely intertwined Mexican and U.S. border economies pose a unique challenges for both nations. Over the years our two governments have established a wide range of effective treaties, agreements and arrangements to deal with boundary and water problems, natural disasters, environmental protection and oil spills, housing and urban development, customs cooperation, and border health. The following border concerns receive special attention.

Border Environmental Cooperation Agreement. President Reagan and President de la Madrid signed this agreement in August 1983. EPA coordinates US participation under the foreign policy guidance of the State Department. Working groups on air pollution, water pollution, and hazardous substances have been active. A second annual meeting of the National Coordinators, designated by EPA and its Mexican counterpart (SEDUE), was held in July 1985 to review progress.

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Border Sanitation Problems. Cross-border flows of raw sewage from Mexican border cities have caused concern in California, Arizona, and Texas. The most urgent problem is caused by sewage flows from Tijuana into south San Diego county. This has caused a growing public health problem requiring the quarantine of San Diego beaches. We have urged the Mexicans also to solve sewage problems in border cities like Mexicali, Nogales, and Nuevo Laredo.

In the case of Tijuana, agreement has been reached on the construction of a treatment plant on the Mexican side of the border. The United States has supported financing by the Inter-American Development Bank and Mexico has provided assurances and safeguards that the Mexican facilities will be properly planned, constructed, operated and maintained.

Air Pollution. There has been an air pollution problem in the "Copper Triangle," where the Phelps Dodge plant at Douglas, Arizona, and two Mexican copper plants at Cananea and Nacozari, Sonora, are located along the border. In July 1985, the United States and Mexico agreed on a proposed solution to these problems. Mexico committed itself to the installation of continuous sulfur dioxide controls before expansion of smelting capacity at Cananea. The agreement also stated that the industry pledged to install a sulphuric acid plant at Nacozari by January 1988, which will reduce sulfur dioxide emissions

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from the plant at that location by 95 percent. In turn, the United States promised to ensure compliance at Phelps Dodge Douglas with Clean Air Act provisions as soon as possible but no later than January 2, 1988. Both governments also agreed that interim measures will be applied to monitor and reduce the impact of present emissions.

Hazardous Substances and Toxic Wastes. The technical working group on hazardous materials and waste management has prepared a work plan to address serious problems such as transboundary movement of hazardous substances and ocean incineration of hazardous wastes. The 1983 Border Environmental Agreement provides for joint contingency planning for inland spills of hazardous substances.

In-Bond Industries. The interdependent border relationship is clearly reflected in the Mexican in-bond industry program, called maquiladoras in Mexico. This program involves mainly US-owned, labor-intensive assembly plants operating on the Mexican side. Mexican employment in these plants increased to over 200,000, in 1985 -- a 30 percent increase over 1984. The border industry program is very dynamic. Both governments have encouraged the expansion of these industries.

International Bridges and Border Crossings. In 1982 the US and Mexican governments agreed on improved bilateral

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coordination on international bridges and border crossings. A new land border crossing at Otay Mesa, California was inaugurated in January 1985. A new bridge at Presidio, Texas is expected to be inaugurated in April 1986. In late June 1985 President de la Madrid announced a new border development plan which includes replacement or expansion of bridges at Brownsville, Del Rio, McAllen and El Paso, Texas. The Government of Mexico has invited a US delegation to visit Mexico City to discuss these projects.

Customs and Transportation. Transportation and customs facilitation issues are handled under various mechanisms -- including annual customs conferences. These conferences have made progress on coordinating work hours at the border, reducing delays in border clearances, joint clearance of cargo and improved enforcement cooperation.

Cross Border Trucking. Mexico prohibits US trucks from its highways except in a few selected border areas. Efforts to negotiate reciprocal access have been unsuccessful. Congress has responded by restricting Mexican access to US highways, including 1984 legislation restricting Mexican access to border communities.

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III. BILATERAL RELATIONS AFTER THE EARTHQUAKE

The earthquakes came in the midst of an already difficult economic situation. The country will run a balance of payment deficit this year of about $3 to 4 billion, with international reserves likely to fall by by over 25 percent.

Mexican officials fear that further declines in the price of petroleum, which accounts for 70 percent of the country's merchandise exports and almost 40 percent of its tax revenues, or an increase in interest rates, will further worsen the situation. Every $1 decrease in the price of a barrel of exported oil costs Mexico $500 million. Every one percent increase in international interest rates costs Mexico $800 million over the following year in interest payments.

Despite these difficulties, Mexican officials have reiterated their resolve to meet the country's international debt obligations, to maintain fiscal discipline and to continue the restructuring of the economy.

In addition, the earthquake is likely to exacerbate social dislocations occasioned by the already long-lived austerity program. Unemployment will increase in some sectors because many small and medium-sized businesses were destroyed in the disaster. This will be offset by increased employment in the depressed construction industry. The overall effect on

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employment cannot yet be quantified. Some loss of foreign exchange earnings should be expected. Not only will there be the loss of some export products and an increase in some imports, but there is already evident a temporary decline in tourism, Mexico's largest foreign exchange earning industry after petroleum exports.

It is important, however, not to exaggerate the extent of the economic consequences of this natural disaster. Mexico's overall industrial capacity was hardly affected. The devastated area in Mexico City comprises a zone approximately the size of New York City's Central Park. Damage outside this area is scattered and, for the most part, slight. The majority of the costs of reconstruction will be in pesos, to pay for domestically produced materials and labor.

There is little likelihood that the social abrasions caused by the earthquakes will translate into political instability. Mexico's institutions are sound, its people and government have demonstrated their resiliency and their capacity to deal effectively with crises in the past. The ruling Institutional Revolutionary Party (PRI) will work hard to maintain the widespread, national support it has enjoyed for the past five decades.

Both we and the Mexican Government are convinced that

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economic and social stability can and will be maintained -- with the full cooperation of debtor and creditor governments, international financial institutions and commercial banks. There is willingness to help in the financial community. The private banks have already agreed to postpone, for 6-months, a $950 million Mexican payment on the principal of its debt to the banks. It is apparent that in the longer term the process will require the continuation of economic restructuring measures needed to provide the sustained growth which will allow Mexico to meet its international debt obligations as well as create the hundreds of thousands of new jobs required to keep pace with population growth and maintain domestic peace.

My conclusion, as of today, is that last month's earthquakes, while a terrible disaster affecting many people, will not be a cause of fundamental change in Mexico, and will not fundamentally alter bilateral relations between Mexico and the United States. The initial US response to this tragedy has been appreciated in Mexico. A cooperative and sensitive approach to longer-term reconstruction should help to strengthen bilateral ties.

More important for the future of Mexico and the future of our relations with this immediate neighbor will be the way in which all participants contribute to the process of overcoming

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the crisis of debt with the economics of growth. Mexican officials have urged that a new international effort be undertaken to find a new, less painful long-term approach to the debt issue. The US proposals for a revised debt strategy advanced by Secretary Baker at the annual meeting of the IMF and IBRD in Seoul were welcomed by the Mexican Government. Success will require a determined effort by the United States and the other industrialized countries, by the international financial institutions and the private banks, and by the debtor nations themselves. This will require:

-- the preservation of a market in the United States that is open to the products of the debtor nations, as well as an opening of markets by the other industrialized countries;

-- substantial increased lending by the international financial institutions and the private banks, including cofinancing arrangements; and

-- the adoption by the debtor nations of comprehensive macroeconomic and structural policies that place greater reliance on market forces, generate domestic savings and investment, attract the return of flight capital, and improve the climate for investment and productive enterprise.

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It is far too early to predict whether all the interdependent parties to this complex process will make the sacrifices and the commitments that success will require. However, it is easy to predict that the consequences of failure would be calamitous for all of us. Therefore, we will have strong incentives to do no less than our best.

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NOV 1985 CRS MAIN FILE COPY
WALL STREET JOURNAL HC56 Ft Mich
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p. 35

INTERNATIONAL

Mexican Factories Along the U.S. Border Succeed Despite Criticism on Both Sides

By Mary Williams Walsh
Staff Reporter of The Wall Street Journal

CIUDAD JUAREZ, Mexico—U.S. labor unions say the factories springing up in this border town across the Rio Grande from El Paso, Texas, are stealing American jobs. Feminists say they exploit women. Mexican policy makers worry they represent another form of dependence on the U.S. economy. Managers are so sick of what they consider bad press they seldom let reporters come near.

Still, there is considerable excitement about the assembly-plant boom here and in other cities on the U.S.-Mexico border. Despite the criticism, the *maquiladora* industry, as the Mexicans call it, has blossomed during Mexico's economic crisis until it vies with tourism as the nation's No. 2 hard-currency earner, after oil.

"Over the past couple years, it's the only industry that has been growing," says maquiladora promoter John Christman. "If I look out over the next four years, it will probably be the only industry that will grow."

Unskilled Labor

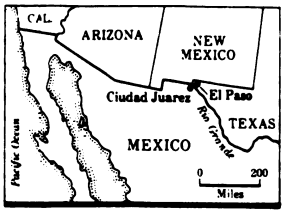
Maquiladoras are light-assembly factories with the big, flat look of airport hangars. They are filled with tables and machines and people—mostly young, unskilled women. Many of the assembly plants are U.S.-owned. They import components duty-free from supplier nations, assemble them, and ship the finished products out of Mexico, paying duty only on the value added. The idea evolved in the mid-1960s, after the U.S. phased out its *bracero* farmworker program and left thousands of unemployed field hands languishing on the border.

In other major international news, please see:
—Secretary of State Shultz may lose ground in the Reagan administration after the Geneva summit, page 6b.
—U.S. and Soviets pursue global chitchat on the Hot Line, page 6b.

"Offshore assembly plants," as the maquiladoras also are known, were acceptable back then. Mexican workers got jobs, and managers from north of the border calculated savings at about $3,000 annually for each worker, compared with the cost of U.S. labor.

But Mexico's economic turmoil of the 1980s turned a good deal into an irresistable one. The peso has fallen catastrophically since 1982, when the average Mexican maquiladora worker earned the equivalent of $2.09 an hour. Today, even after several minimum-wage hikes, the average is $1.10. Plants' per-worker saving now is said to be at least $15,000 a year.

That's why feminists and unionists oppose the plants. It's also why the number of maquiladoras has grown 27% in the past two years, and why the number of manufacturing jobs in border towns has grown 47%. (The rest of Mexican industry was reporting near zero growth this year, at least until September's earthquakes ironically breathed some life into construction concerns.)



It's also why the government can earn so much foreign exchange—probably $1.5 billion this year—from the plants: It plays the spread between the fast-falling free-market peso and the controlled-rate peso the maquiladoras must do business with.

Still, it's one thing for the maquiladoras to be booming in the country's northern reaches and enriching the national treasury, but it's quite another thing for them to help pull the nation's industrial base into the 1980s. Yet that is what some enthusiasts say they should be able to do.

Servicing the Debt

Mexico needs to overhaul its economic-development strategy if it is to pay back its foreign debt. With oil prices falling, it must open up its economy, after decades of protection and isolation, and create a non-oil export sector. And it needs to create 800,000 new jobs each year if it is to employ its youth.

It will take a long time to meet those goals. But maquiladora promoters say they, more than anyone else, are speeding the process. While opponents grumble about exploitation and lost U.S. jobs, the people behind the maquiladora movement boast that their projects constitute an industrial revolution.

"The maquiladora industry is bringing Mexico into the 20th century," says Aureliano Gonzalez Baz, a lawyer here who works extensively with the assembly plants.

The idea is to coax Mexican manufacturers to sell raw materials to the maquiladoras. That would mean the assembly plants would rely on more than just cheap labor, and it would be a way for domestic industry to enter the international marketplace. Mexican suppliers would become more aggressive, it is said, and develop what Mr. Gonzalez Baz calls an "export consciousness." It's an appealing strategy—but it hasn't gotten very far.

The problem is that Mexican industry grew up after World War II around "import substitution" in which the government protected companies that produced goods otherwise unavailable in Mexico. The model worked for decades—the nation's growth was routinely called "the Mexican miracle"—but the protection ultimately led to inefficiencies and a reluctance to sell anywhere outside the sure-fire Mexican market.

Now there is a consensus that the nation needs a new development model, but there is ambivalence about whether the maquiladoras can be its backbone and, if so, how the government should promote them. The current government has put aside much of the reticence its predecessors felt toward maquiladoras. It has simplified paperwork and eased operating rules. But policy-makers still think it's risky to tie Mexico too closely to the U.S. business cycle, and they aren't comfortable basing industrial growth on cheap labor.

Private Sector's Concern

And the skittish Mexican private sector worries that, as the government warms up to maquiladoras, it will crush them in its embrace. Business people, especially those here in the fiercely independent north, have never trusted government intervention in economic affairs. They say, half joking, that the maquiladoras are only booming because the government didn't notice them when they were small and spared them from heavy regulation.

There are rumors here on the border that the government will start requiring maquiladoras to buy a percentage of their components locally, to help spread the northern "industrial revolution" throughout the economy.

Last year, the Mexican Commerce Ministry took a step in that direction, offering maquiladoras the right to sell their products in Mexico if they use some Mexican raw materials.

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Saturday, July 27, 1985 The San Diego Union

Border problems fail to stir much action

By Debra Beachy
Special to the San Diego Union

MEXICO CITY — Volatile border issues were an important part of the agenda during the two-day visit of Secretary of State George Shultz, but they got no more than a good hearing, a U.S. Embassy spokesman said yesterday.

"There were no new agreements, no new programs to be launched, no new agencies or timetables set for definite meetings as a result of this visit," said the spokesman, who asked not be identified.

A written statement, issued yesterday at a news conference that Shultz attended before leaving for California, singled out an environmental meeting held recently in San Diego as an indication that progress had been made on controversial border issues.

During the visit by Shultz, the statement said U.S. and Mexican officials reviewed the results of "the very successful environmental meeting held recently in San Diego where steps were announced to resolve the problems of sewage flows which threaten the health of residents of Tijuana and San Diego."

The U.S. Embassy spokesman said that both sides presented their viewpoints during the talks.

The statement also lauded the San Diego meeting for its cooperative approach" in dealing with the controversy of air pollution for copper smelters along the borders of Arizona and Sonora.

It said the meeting revealed "further evidence of our ability to resolve difficult problems in a spirit of friendship and respect."

Mexican Foreign Minister Bernardo Sepulveda, at a separate news conference following Shultz's departure yesterday, also praised the San Diego meeting as "extremely successful from all points of view."

But Sepulveda listed as "still worrisome" the long-standing unsolved issue of sea limits and tuna fishing.

Mexico recognizes a patrimonal sea limit of 200 miles. The United States does not.

The Mexican official also said the U.S. and Mexico need a "regional agreement that would deal with the administration, conservation and exploitation of tuna fishing so that this migratory species is not over-exploited."

Associated Press

Secretary of State George Shultz visits historical sites in Mexico City yesterday with U.S. Ambassador John Gavin, center, and Foreign Minister Bernardo Sepulveda.

Business remains wary of Mexico's leaders

ed Mexico's debt difficulties.

He sold back to the private sector one-third of the firms seized during the nationalization.

De la Madrid has reversed the severe contraction he inherited: Last year, the economy grew 3.5 percent, and in the first quarter of 1985, it surged by 6.6 percent. He attacked the budget deficit, even recently selling off scores of unprofitable state industries.

Peso inflation has been a more intractable problem, partly, analysts say, because of continuing business uneasiness over government policies. Soaring at 117 percent in April 1983, De la Madrid got inflation down to 55 percent last May.

The de facto devaluation in June — when government banks began selling dollars at the free-market rate, 35 percent higher than the previous official level — dealt a new blow to his anti-inflation efforts.

Fundamentally, however, De la Madrid's has been a pro-business policy.

In northern Nuevo Leon state, the heir to a steel-working fortune ran as an opposition candidate for governor, a move so unusual in Mexican politics that one influential publisher warned of "an emerging break between the government and Mexico's business elite."

The official party's response was the orchestration, nationwide, of meetings similar to the Sonora gathering, aimed to showcase private-sector support. But those gatherings also highlighted the tensions.

The Bank of America's vice president in Mexico, Jose Carral, a financier generally supportive of the government who attended the Sonora meeting, later discussed his own ambivalence in an interview in Mexico City:

"The government has accomplished a lot, since the very dark days of 1982. It has kept order, peace and discipline among the sectors worst affected by the crisis.

"However, I don't think they have realized that they have to increase their efforts to bring back the balance between the private sector and the government.

"The managerial class worries about certain positions taken by the government in Central America, and about the tremendous power of labor unions in the government. And they worry that relations with the United States are not the best."

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Consular Aspects of Tourism

Although most of the approximately 4 million Americans who visit Mexico each year have pleasant, trouble free visits, there have been serious incidents involving crimes against Americans there. The problem was brought into sharp focus with the disappearance of six US citizens in Guadalajara between December 1984 and February 1985 (of whom, as of May 1986, two were located murdered and four remain missing). Also, the Mexican Government has raised the issue of the safety of its citizens in the US, and we seek to be as responsive as possible to their concerns.

Our Embassy in Mexico City has worked with the Mexican Government to improve the security of Americans and to solve crimes against Americans and bring the guilty parties to justice. There are signs that the Mexican Government is seeking improvements. The US Goverment welcomes such improvements.

Section 134 of the Foreign Relations Authorization Act of Fiscal Year 1986 and 1987 requires that the Secretary of State report to Congress every 90 days on efforts to solve certain cases, including the abduction and murder in 1985 of Drug Enforcement Administration agent Enrique Camarena, and to report on the general safety of Americans in Mexico. Thus far two 90 day reports have been submitted to Congress, with a third report to be forwarded in mid-May. Essentially, the reports so far have noted some significant arrests in the Camarena and other murder cases but with key suspects still at large; that four Jehovah's Witnesses abducted in Guadalajara in December 1984 remain unaccounted for with little sign of progress towards resolution; and, that the Mexican Government is showing some new attentiveness in discussions with the Embassy on improving tourist safety but that many improvements remain to be implemented.

Given the very large numbers of Americans visiting Mexico (and the large numbers of Mexicans visiting the US), tourist safety will be an ongoing matter for discussion and cooperation between our two nations. Recognizing that criminal acts and safety problems will never be totally eliminated in either country, we nevertheless countinue to work hard to secure the best possible policies to bring about needed improvements.

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NEW YORK TIMES
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Mexico Tourist Traffic Slows a Little

By ROBERT REINHOLD
Special to The New York Times

NOGALES, Ariz., March 9 — Michael and Nancy Jett of Richmond, Va., drove to this American town on the Mexican border today, but they sure were not going to venture very far into Mexico. After all, said Mr. Jett, an air-conditioning salesman, "That's another country and there's no guarantee you're going to come home."

Travelers with more experience in Mexico, like Jim and Barbara Apple of Sausalito, Calif., who confidently drove 250 miles today to San Carlos in Sonora, Mexico, where they keep a sailboat, laugh at such attitudes. "We've never had any problems," said Mr. Apple. "We don't even lock our boat."

But millions of others who had thought of going to Mexico are taking the Jetts' apprehensive view of and staying north of the border this year because of the kidnapping and murder of an American drug agent and recent incidents of robbery and murder of American visitors in Mexico.

Some Take Extra Care

Many of those who do venture from Nogales and other major ports of entry are taking special precautions, particularly the elderly, who sometimes travel in small convoys of house trailers.

The reluctance of tourists to visit Mexico, long a sunny and inexpensive vacation spot for Americans, has not hurt only the Mexican tourism industry but also the economies of border towns like Nogales, which depend on services for southbound travelers.

"Yes, it's down with everybody," said Don Smith, proprietor of Don Smith Travel Service, which has been selling Mexican automobile insurance to tourists for 37 years. To judge from his sales, he said, travel to Mexico has dropped 30 percent since Jan. 1.

"The ones who have stopped coming are mainly those who have never been to Mexico before and people from up North," he said. "Arizonans and New Mexicans pay no attention. They know that for every act of violence in Mexico there are 1,000 here. It's been sensationalized by the media. But that's natural. It is a foreign country."

Questions Are Sheepish

There is a daily ritual at the tourist information office run by the Nogales-Santa Cruz County Chamber of Commerce on Grand Avenue just a mile from the place where it becomes Avenida Sonora in Nogales, Sonora. Scores of pale American tourists saunter in and ask sheepishly whether it is safe to cross.

"We tell them it's just as safe over there as at home," said Arthur M. Doan, the former seven-term mayor of Nogales, Ariz., who is executive director of the chamber. "The incidents are isolated and played up too much. There are homicides in Los Angeles in one weekend than in the whole of Mexico."

Neil Bruno, head of the Immigration and Naturalization Service Office here, agreed. "I'd say it's as safe as ever there," said Mr. Bruno, whose port admits one million citizens and foreigners every month. But, he went on, his counterparts on the Mexican side tell him that tourist traffic is down sharply. Crossings into the United States at Nogales were down 20 percent in February as against last year, he said, although it is not clear how much is due to lighter American tourism and how much is due to intensified border checks.

Certain Warnings Given

"No one can guarantee nothing is going to happen," said Mr. Smith, but he maintained travel was safe. He urged tourists, though, not to drive at night, stop on the highway or park in isolated villages.

Nogales, at the end of Interstate 19, has long served as the American exit for tourists bound for such popular Mexican places as Mazatlán, Puerto Vallarta, Hermosillo, Kino Bay, Guaymas and San Carlos. Travelers head down Highway 15 in Mexico, lined with cactus and spectactular buttes and mesas, tasting a warm culture that seemed exotic, friendly and enticing.

For example, Bill Layden, a real estate broker from Santa Fe, N.M., and his wife, Carmen, have been traveling to Mexico since 1970. Today, in their huge house trailer, they crossed the border headed for Kino Bay, all the negative publicity notwithstanding. "We're a little concerned, but we're going to try anyway," said Mr. Layden. "We've had more things stolen at home," Mrs. Layden said.

As they rolled out from the border station, scores of other American motorists were picking up their obligatory Mexican tourist permits and insurance. Their vehicles were sagging under motorboats and camping gear.

College Students Are Jaunty

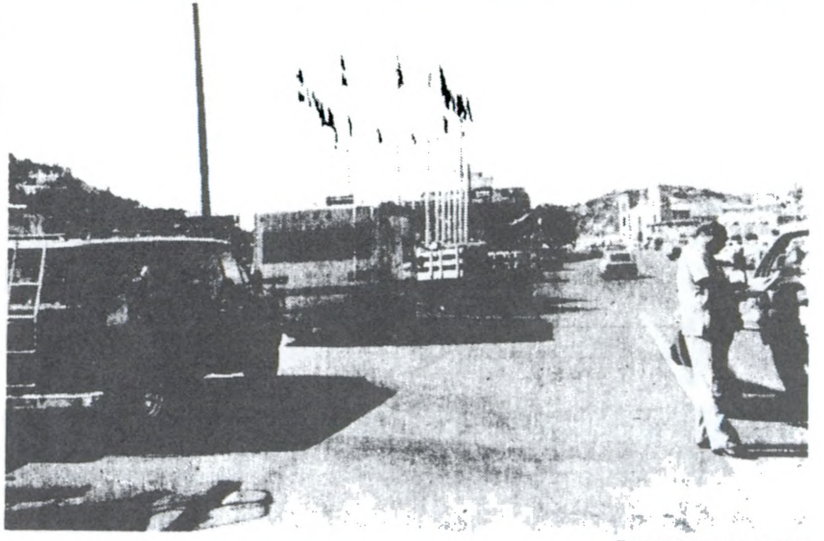
Undaunted by it all were hundreds of college students on spring break. Three cheeerful men from Colorado State University, Dave Nelson, Paul Rodriguez and Don Kovac, were squeezed into a Volkswagen hatchback, ready for a week of sun, fishing and scuba diving at Guaymas, 260 miles south.

Were they worried? "A little," said Mr. Nelson, who is from York, Me. But he said the trio planned to take "common sense" precautions, like not driving at night and staying away from drugs. "We're going to be good boys," he said, with a big grin.

But if they seemed almost to relish the notion of scary territory, the old were frightened. Forty-two people gathered at the Americana Motor Hotel this weekend. They were members of Elderhostel, which holds seminars and outings for the retired around the country.

The organization tried to arrange a side trip to Guaymas. But there were not enough takers.

Mrs. Apple of Sausalito, however, said: "From the rate of homicides in Los Angeles and Miami, I feel much safer in Mexico."



The New York Times/Robert Reinhold

American tourists entering Mexico at the border crossing between Nogales, Ariz., and Nogales, Sonora.

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Chicago Tribune Feb. 24, 1985 pp. 1 and 12

Violence tinges Mexico tourism

By Vincent J. Schodolski
Chicago Tribune

MEXICO CITY—Late last summer an American couple were driving through Mexico on Hwy. 57 near the city of San Luis Potosi when five men wearing police uniforms pulled them over.

The men said they were searching for drugs and told the couple to get out of their van.

The two did as they were told.

Before they knew what was happening, the five were beating the man and raping his wife. They stole the van and left the couple by the road.

A few weeks later a young U.S. marine and his half-brother were stopped on the same road by four or five men claiming to be federal police officers. Again the excuse was a drug search. This time the two were beaten, robbed and left tied up in the desert.

Mexican authorities have not resolved either case. It is not clear whether the attackers were police or impostors, and no one has been arrested despite the marine's identification of one suspect.

Seven Americans, including an agent of the federal Drug Enforcement Administration, have disappeared in the city of Guadalajara since November.

In the resort city of Puerto Vallarta last month, seven Americans were assaulted, one was murdered and another was raped.

Is Mexico safe? It is an important question, because 4.1 million Americans visited Mexico last year, nearly twice as many as two years ago.

The answer is not simple and at the moment is bound up in a political dispute between the United States and Mexico. That dispute not only involves the attacks on tourists but also the efforts to find the drug agent.

Mexico does not need this kind of publicity. It threatens an industry that earned the country $1.3 billion last year, second only to oil revenue, and it handicaps major government efforts to clean up the country's legendary corruption.

The cited attacks come from a

Continued on page 12, col. 1

From Page 1

Mexico

Continued from page 1

report prepared by the U.S. Embassy to support possible issuance of a State Department travel advisory warning Americans that parts of Mexico are unsafe.

The report, a sampling of those cases on which embassy officials have the most information, listed 25 unresolved cases of murder, rape and assault involving Americans in 1984. There were 18,000 petty crimes involving U.S. tourists in Mexico last year.

The crux of the U.S. complaint is that little is done to solve these crimes. This is where the problems with tourists cross paths with the case of Enrique Camarena Salazar, the DEA agent who was kidnaped Feb. 7 in Guadalajara.

U.S. officials have indicated that they think Mexican authorities at the working level are dragging their feet in searching for Camarena.

Many Mexicans are convinced that the present flap over tourist problems and the massive slowdown at border crossings caused by extensive customs searches are part of a U.S. effort to make them do more to find the agent.

U.S. officials say they expected publicity about tourist attacks to prod Mexico to solve the cases. They readily admit that the tedious car searches at the border are a pressure tactic on the Mexicans to solve the DEA abduction.

But there has been no sign of results, the American officials say. "Either the government does not care," one of them said, "or it is powerless to do anything."

Regardless of whether publicity about tourist troubles is part of a strategy to solve the Camarena case, the two events touch on a major cause of U.S. annoyance with Mexico: the problems in solving crimes against Americans.

"We are not at all convinced that the Mexicans on the local level are taking these cases as seriously as they should," said embassy spokesman Lee Johnson.

Mexican tourism officials argue that only a tiny number of the Americans who visit each year are victimized.

Alejandro Morones Ochoa, undersecretary of tourism, said Tourism Ministry statistics for last year show only 34 major crimes against U.S. tourists, an infinitesimal number in relation to the 4.1 million visitors.

Though the embassy disputes the precise ministry figures, it admits that in general the risk is small.

"It is very safe to travel in Mexico as long as you take the necessary precautions," Johnson said.

Many of the attacks on tourists have been along certain highways and often involved people who parked along roads to sleep, a practice that U.S. officials discourage. In fact, they strongly advise against driving at night.

They also warn against hitchhiking, sleeping on the beach, carrying too much cash and wearing too much jewelry.

Mexican authorities say some of the problems are caused by Americans' own actions or naivete.

U.S. officials don't dispute that.

"Ninety-nine percent of the cases are tourists who are naive, stupid or behave badly," one American official said.

Gabriel Ochoa Ornelas, policy director at the Tourism Ministry, said many of the recent problems involving U.S. servicemen in the border town of Tijuana involved excessive drinking and barroom fights.

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CHRISITIAN SCIENCE MONITOR
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Mexican tourism, a key to recovery, springs back after earthquake sag

By David Clark Scott
Staff writer of The Christian Science Monitor

New York

What a difference a month can make.

Last month, rescue efforts in the Mexican earthquake rubble were the drama for dinnertime television news. Anxious tourists canceled vacations. Mexico City hotels saw a 50 percent drop in business. Bookings at other resorts slipped 10 to 15 percent.

Economists warned that if Mexico lost too many tourist dollars, it could seriously jeopardize its ability to cover interest payments on its $96 billion foreign debt.

Mexico still isn't out of the woods. The reconstruction price tag is climbing to $5 billion. Prices on oil, a critical source of foreign currency, remain soft. But Mexico did get a six-month reprieve on foreign loan payments.

And one very important area — tourism — is starting to rebound.

"Bookings have returned just about to normal," says Tim Warnock, vice-president at Firstours, a Denver subsidiary of the Carlson Company, one of the largest tour agencies in the United States.

Other agents contacted confirm nearly normal bookings at Mexican resorts. In fact, Cancún and some other east coast resorts (the earthquakes were centered on the Pacific coast) have drawn more vacationers than last year at this time. But travelers are still shunning Mexico City. And there is some regional variation.

For Americans in the Northeast, bookings at Acapulco are "very slow" and at Ixtapa are "almost nonexistent," says Doug Frank, vice-president of agency sales at the Boston-based Trans National Travel. Firstours reports the earthquakes had little effect on bookings from the West Coast, while Chicago trade did fall off.

To counter this, officials from the Mexican tourism department are now on a revival mission — meeting with travel agents and the news media in 19 cities in the United States and Canada.

"Ninety-nine percent of Mexico City is undamaged and back to normal," said Guillermo A. Grimm, Mexico's undersecretary of tourism, at a New York press conference this week. In Mexico City, all but 20 of the 500 hotels are operating normally. In Ixtapa, only three of some 30 hotels are closed now. Two of those will be open by December, Mr. Grimm said.

"The challenge now is to correct public perceptions in North America and Europe that Mexico is destroyed, but [in fact it] is alive and well, . . . and to thank all of you for the help received right after the disaster."

To that end, the Mexican government will spend $10 million in the next three months on its largest promotional campaign ever. Grimm outlined plans to boost spending 300 percent on television ads in 11 markets and 30 to 50 percent in print advertising.

North Americans are an important market for Mexico — accounting for 85 percent of all travelers to the famous crescent-beach resorts. But even before the Mexican quakes, tourism was hurting. This was in part because of publicity surrounding the murder of a US drug enforcement agent last February — and in part because of stiff competition from other vacation spots.

Travel agents say favorable currency-exchange rates continue to make Europe "the place to go." An airline fare war on flights to Hawaii has siphoned off some tropical-paradise clientele. And travel agents say fear of terrorism is hurting some locations abroad.

Mexican officials had expected to boost tourism revenues to $2.2 billion from last year's $1.9 billion take. With the huge advertising campaign, Grimm hopes Mexico will bring in at least $2.1 billion in 1985.

Special discounts are not a part of the Mexican government's tourism campaign — perhaps because there is little need for them. In the last month, the peso has dropped sharply against the dollar. The result: cheap prices for US and Canadian tourists once they get there.

"At this point, the peso is probably undervalued and offers tremendous bargains," says Firstours' Mr. Warnock, who returned from Mexico recently. He cites breakfast for $1.25, $3 for a "nice restaurant lunch," and "a good seafood dinner with drinks for $7."

In Ixtapa, the Pacific coast resort closest to the earthquake epicenter, the hotels are cutting prices by 50 percent between now and December, Warnock says. Mexicana Airlines is doing some discounting as well.

The peso's recent fall, from around 280 to about 470 to the dollar, is due to a speculative overreaction to the financial burden of earthquake reconstruction and a recent interest rate cut, says Javier Murcio, Latin America economist for Data Resources, the economic consulting firm. As in the US, when interest rates fall, investors tend to seek higher rates of return in other currencies, thus decreasing the demand for pesos and peso-denominated securities.

As speculation subsides and refinancing plans are made, Mr. Murcio expects the peso to slip gradually back under 400 to the dollar within the next three to six months.

On Tuesday, another large aftershock hit Mexico, measuring 5.2 on the Richter scale. Seismologists say this is typical. Aftershocks occur for a year or so after a major quake and get further apart as time goes on. The aftershocks have been smaller than the Sept. 19 quake, which measured 8.1.

"Magnitude 5.2 is big enough to be felt but not enough to do real damage," says Dr. Robert Uhrhammer, research seismologist at the University of California at Berkeley

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THE JOURNAL OF COMMERCE, Friday, October 25, 1985

Crime Reports, Quake Drop Mexican Tourism

By WILLIAM A. ORME Jr.

Journal of Commerce Special

MEXICO CITY — Tourism, normally Mexico's biggest dollar earner after oil, is performing far below official expectations this year

Tourism Minister Antonio Enriquez Savignac said income from tourism will be $250 million less this year than in 1984, when it reached a record $1.95 billion. The number of foreign visitors to Mexico in 1985 will drop to 4.2 million, down from last year's 4.7 million, Mr. Enriquez estimated after a meeting with President Miguel de la Madrid.

With industry prospects for early 1986 appearing similarly bleak, this trend is certain to further erode Mexico's foreign exchange holdings and put additional downward pressure on the peso, analysts said. Foreign tourism is the largest single source of dollars for Mexico's "free" parallel peso exchange market.

To stimulate the industry, the government has allotted $10 million to an emergency tourist promotion fund, Mr. Enriquez announced. Yet he also confirmed that 22 of his ministry's 33 information offices abroad have been closed due to recent budget cuts.

The number of visitors to the Guadalajara area, including Puerto Vallarta, one of Mexico's biggest tourist centers, began slumping earlier this year following press reports of crimes against foreign visitors and narcotics activities in the region.

The strong U.S. dollar, meanwhile, lured tourists to Europe at a time when Mexican inflation made resorts here relatively less competitive.

Exacerbating these difficulties, the extensive foreign media coverage of last month's Mexico City earthquake provoked a rash of travel agency cancellations for the critical 1986 winter high season.

In the January-April period of 1985, Mexico's tourist earnings reached US$1.4 billion — fully four-fifths of the $1.7 billion now anticipated for the entire year.

In the January-April period of 1985, Mexico's tourist earnings reached US$1.4 billion — fully four-fifths of the $1.7 billion now anticipated for the entire year.

Most of the canceled reservations, perturbed Mexican tourist officials noted, were for hotels in beach resorts completely unaffected by the Sept. 19 disaster. The earthquake's damage was concentrated in central Mexico City and along a strip of Pacific coastline north of Acapulco.

In Ixtapa, the only coastal vacation spot to suffer serious earthquake damage, a third of the 4,100 hotel rooms are out of service, but all will be repaired by January, Mr. Enriquez said.

Earlier damage assessments led to calls for the demolition of two or three of Ixtapa's most affected luxury hotels. Critics argued that by refurbishing rather than provisionally closing the most heavily damaged hotels, the Mexican government and tourist industry have caused foreign travel agents to question the enforcement of hotel safety and construction standards.

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THE NEW YORK TIMES, TUESDAY, OCTOBER 8, 1985

One More Thing for Mexicans to Rebuild: Tourism

By JOSEPH B. TREASTER
Special to The New York Times

IXTAPA, Mexico — There are rows and rows of empty lounge chairs around the swimming pools in the resort hotels here on Mexico's Pacific coast. The tennis courts are empty; no appointment is needed to tee off on the golf course.

Autumn in the northern climes is usually a slow time for Mexico's vacation retreats. But the earthquakes that sent shook the country from the palm-fringed Pacific coast to the capital, 650 miles to the north, have made matters much worse. Many tourists fled Mexico, and many others have since decided not to come.

The terrifying tremors in September that in a few minutes brought down hundreds of buildings in Mexico City, including five hotels, and killed and injured thousands have left the country's second-largest industry, tourism, facing perhaps its worst crisis since its emergence after World War II, when vacationers looked for an alternative to the bombed-out cities of Europe.

Mexico asked its banks to defer $960 million in repayments because of the earthquakes' impact on the worsening economy. Page D11.

The New York Times/Paul Hosefros

A row of empty chairs lining a section of beach in Ixtapa, Mexico. This time of year is normally slow for tourism at the resorts, but after the earthquakes many tourists fled Mexico and others decided not to come.

No one knows precisely how deep the fear runs and how long the television images of a devastated capital will remain in the minds of potential tourists around the world. But Antonio Enríquez Savignac, the country's director of tourism, said in an interview in Mexico City that the earthquakes "obviously will affect us strongly."

A $2 Billion Industry

Last year, Mexico earned $2.2 billion from tourism, second only to oil as an income producer for the financially troubled country. There were 4.7 million foreign tourists, 80 percent of them Americans.

Mexico stopped all tourism advertising immediately after the first big earthquake on the morning of Sept. 19. The Government and its advertising and public relations agencies in the United States are now gearing up for a new campaign to begin Oct. 15.

Several Government officials indicated, however, that the campaign is unlikely to address a fundamental question raised by the earthquakes: Is it safe for me and my family to come to Mexico?

"How can we address in advertising that we are safe," asked one senior Government tourist official, "when we're not sure that another earthquake won't come."

The Government intends to do everything short of that to reassure the world that, as one official said, "Mexico continues to be a viable vacation destination."

The Mexicans believe that one of their most compelling selling points is that their country is big — eight times larger than Britain and more than three and a half times larger than France — and the killing zone of the earthquakes was relatively small.

Only 2 Resorts Were Damaged

Although the capital suffered enormously, most of the country was unharmed. Of the more than 15 resorts outside the capital, only two were reported to have suffered any damage, and it was not major.

Ixtapa, a quiet, luxurious tourist colony established 10 years ago, was the hardest hit. Some walls in the 11 pastel painted hotels that rise on the edge of dazzling Ixtapa Bay were awesomely cracked, and some windows shattered. But no buildings collapsed, and no tourists were hurt. In Acapulco, about 120 miles down the beach, a few walls cracked. But many tourists said they felt only a mild shaking; one woman described it as "like swaying in a hammock."

Though Mexico is, indeed, much more than Mexico City, the capital is an influential element in the country's tourist business. With its historic churches and Aztec sites, fine museums and exquisite shops, Mexico City has been the country's main tourist spot.

It is the principal port of entry for travelers from Europe and the rest of Latin America, and some tourism executives say they believe there is a strong tendency abroad to think of Mexico City as Mexico.

'Bad Geographical Knowledge'

"The majority of the people have a bad geographical knowledge," said Rosa Prieto, the co-owner of a small, exclusive hotel on the beach in nearby Zihuatanejo. "They hear Mexico and that's it. It's confusing to have the same name for the capital and the country."

But Government officials are encouraged that although Mexico City led the country in visitors last year, its 960,000 tourists constituted only about 20 percent of the total. Acapulco was second with 13 percent, or nearly 625,000 tourists. Cancún, on the Caribbean, was third with about 499,000 tourists, or a little more than 10 percent, and Puerto Vallarta up the Pacific coast from here was fourth with 442,000, or a little more than 9 percent.

Mr. Savignac said Mexico hoped to "minimize the impact" of the earthquakes on tourism by getting "most of the damaged hotels operating and things functioning normally" by the start of the winter season in late November and early December.

Other Government officials said that of Mexico City's 507 hotels, about 110 were damaged. Besides the five that collapsed, one official said, four others will almost certainly have to be destroyed because of extensive damage. He said 36 others were being studied before a decision was taken to "demolish or fix them."

One official said the Government estimated that about 1,000 guests had been staying in the five hotels that were destroyed and the four others that were damaged beyond repair. He said it was believed that 150 to 200 of the guests would ultimately be declared dead or missing. The United States Embassy has so far announced the death of six American tourists in the earthquakes and said 28 others were missing.

Tourists are now rare in Ixtapa. One American couple, John and Jillian DeGracia of Brooklyn, a 34-year-old New York City fire fighter and a 28-year-old dietician who met on a subway, said they were having a delayed honeymoon.

They were in a fifth-floor hotel room in Mexico City during both of the earthquakes. They had been frightened, they said, but they had their hearts set on continuing to Ixtapa.

In Ixtapa, they found the hotel they had booked had been the most seriously damaged and was closed. They checked into another hotel, but they tried three rooms before they found one in good condition. The elevator was still not working, they said, but they had the beach to themselves and they said they liked the quiet.

"It's been kind of an adventure," Mr. DeGracia said, as he and his wife sat under a thatched sunshade with long, gentle rollers foaming across the beach before them. "We can say we lived through an earthquake and we got to see Mexico City and Ixtapa. You've just got to look around you to see how nice it is."

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Sunday, June 23, 1985 The San Diego Union

Gavin said set to blast Mexico again on tourist crime

Knight-Ridder Newspapers

MEXICO CITY — Item: In the wake of pressure from U.S. Ambassador John Gavin to do more for U.S. tourists who become victims of crime, Mexico opened a tourist "hot line" Dec. 1. In the first three months of the hot line's under-publicized operation, not one American has called to report a crime, and only two have called to complain about tourist services.

Item: Following a Gavin suggestion, the Mexican attorney general's office was given the power to speed up state and local prosecution of criminals who victimize foreign tourists. While some diplomats have asked the attorney general for such help, not one U.S. victim of crime has used this unpublicized service since it began Feb. 27.

Item: Forty-eight Americans were murdered between 1983 and 1984. No case has been resolved yet by conviction. Of 27 Americans known to have disappeared in Mexico since December 1980, only four have been found.

Against such a backdrop, Gavin is reportedly about to turn up the heat again on the issue of crime. He has on his desk a white paper — an official presentation representing Washington's views — that he plans to submit shortly to the Mexican ministry of tourism.

As he did last year, Gavin is presenting a representative sample — 53 cases, this time — of serious crimes or accidents involving U.S. tourists. The paper, in effect, asks: "What is Mexico doing to help such Americans?"

"It's another attempt to make the Mexican government understand where we're coming from," said a U.S. official, who asked not to be identified. "The Mexican government has taken some initial steps, but more remains to be done."

Gavin extended condolences Friday to relatives of two Americans slain by drug kingpins and suggested that four other missing Americans may have been killed by drug traffickers.

"The bodies found in Guadalajara on June 18 have been positively identified as those of John Walker and Alberto Radelat," he said in a statement released by the U.S. Embassy. The others he referred to are four missing members of the Jehovah's Witnesses, all U.S. citizens: Dennis and Rose Carlson of Redding, Calif., and Benjamin and Patricia Mascarenas of Ely, Nev. They disappeared Dec. 2 in Guadalajara, a major drug-trafficking center 330 miles northwest of the capital.

The timing of Gavin's white paper, the U.S. official said, is linked to the first anniversary of an unusual cluster of attacks last year against U.S. tourists on Mexican highways. The official added that Gavin also wants to see if the remedial steps the Mexican government has taken to help U.S. tourist crime victims are really what the government says they are.

"There is a rhetoric gap between what they say they've done and what we've been able to see," the official said.

For example, that toll-free hot-line number — 5-250-0123 — has been used mostly by people whose cars have broken down or who need hotel or restaurant information. Only four of 1,255 calls logged in the first three months of operation involved complaints about mistreatment of tourists, according to Mexican officials.

Crimes continued to be committed against Americans during this period. None, however, was reported through the hot line — perhaps because of the way it is publicized. Only tourists who come into Mexico at the border are given a pamphlet on the 24-hour, 10-line service, described as "for visitors requiring guidance or immediate assistance." No mention is made of crime.

The three million foreign tourists who travel by air annually to Mexico City, Acapulco, Cancun, Puerto Vallarta or other common destinations are told nothing of the hot line. There has been no publicity at all on the attorney general's service.

This kind of response to Gavin's public complaints is surprising. Tourism earns Mexico $2 billion a year — the biggest cash-generator after oil exports. Tourism has slumped since Gavin first said publicly in October that he was thinking about asking for a U.S. State Department "travel advisory" against trips to Mexico because Mexican authorities weren't following up serious crimes against U.S. tourists.

Tourism's downward trend continues. In the first quarter of 1985, the number of foreign tourists decreased 15 percent, Tourism Minister Antonio Enriquez Savignac said Tuesday.

The U.S. Embassy gives the Mexican government credit for beefing up the number of "Green Angels," the nickname for Mexico's 700-person emergency road service, and for increased police protection in Puerto Vallarta, a high crime site.

Sandoval said the government also has increased the number of police patrolling dangerous highways, such as Routes 15 and 40 along Mexico's Gulf of California coast and Highway 57 between San Luis Potosi and Matehuala. The embassy hasn't been able to verify this, the U.S. official said.

He agrees with the Mexican government that a false image has been created that Mexico is suffering from a crime wave. Gavin's complaint, the official said, is not that there has been an increase in crime but that much tourist-related crime is serious — and little is done to catch those responsible.

Los Piños, the Mexican White House, was so irritated by the "crime wave" image Gavin's remarks were creating that it issued an English-language pamphlet, "Tourist Safety," purporting to show how Mexico — or at least Mexico City — is no more dangerous than major U.S. cities. The U.S. official said he finds the report good "public diplomacy" but bad criminal science.

For example, Mexico City, with 9.9 million people excluding suburbs had 163,424 reported crimes, serious and minor, in 1984, said the report. The San Francisco Bay Area, given a 3.3 million population by the Mexican study, had 551,766 reported crimes of all types in 1981 — the latest year used.

Using a rate of crimes-per-100,000 people, the study concluded that the San Francisco area had a "crime rate" of 8,376, compared with Mexico City's 1,654. New York City had a rate of 9,034 and Los Angeles 5,353, the study said.

Looking at violent crimes, the kind most tourists suffer, presents a different picture from that of the study. For example, Mexico City had 3,886 homicides in 1984 — 39 homicides per 100,000 people. According to the latest FBI figures, the New York

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Gavin said set to blast Mexico again on tourist crime

City area, with 8.3 million people, had 1,665 homicides in 1983 or 20 per 100,000. The San Francisco area had eight homicides per 100,000 and Los Angeles had 17.

Nonetheless, the number of reported crimes against the four million U.S. tourists who visit Mexico annually seems small. Less than 1 percent are victimized.

The U.S. official pointed out that many tourists don't bother to report crimes. Some have to return home. Unlike Mexican diplomats in the United States, U.S. diplomats here can't report a crime for a departing tourist.

official said. On another occasion, a CIA agent hired a Mexican prostitute, hoping she could be used to compromise a Soviet Embassy communications clerk. It is unclear what resulted from the latter effort.

The CIA has tapped the embassy's phone lines, photographed people entering and leaving it, paid travel agents to report Soviet diplomats' travel schedules, interviewed the Russians' doctors and dentists, and at one point several years ago the agency paid delivery boys to report on what they saw while bringing supplies to the embassy, intelligence sources said.

Despite all that and more, "It is impossible to have blanket coverage of what goes on in that embassy," Beck said.

American spies traveling here to meet their Soviet contacts stand "little if any chance of being caught," a senior FBI official acknowledged in recent congressional testimony.

One reason is that the CIA's counterintelligence tactics have not always been effective here, several officials said.

For many years the agency photographed everyone coming and going at the Soviet Embassy, hoping to spot American spies. The agency photographed Lee Harvey Oswald entering the embassy in 1963, a few weeks before the assassination of President Kennedy.

The photography was limited in the Carter administration, intelligence sources said. It is unclear whether it has been resumed now, but last week the managers of several buildings surrounding the embassy said Soviet officers had asked them not to allow photographers in.

In any case, Beck said, the volume of photographs was so great it was impossible to analyze all of them.

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10. Ecology

Recognizing the need to address serious border environmental problems, President Reagan and President de la Madrid signed the Border Environmental Cooperation Agreement in August 1983. This is a framework agreement with separate annexes to deal with specific problems. The Agreement named the Environmental Protection Agency (EPA) and its Mexican counterpart, the Mexican Secretariat for Urban Development and Ecology (SEDUE), National Coordinators. EPA operates under foreign policy guidance of the Department of State. The agreement confirms existing responsibilities for water pollution of the International Boundary and Water Commission (IBWC) under the 1944 US-Mexico Water Treaty. Progress is being made to implement this agreement but more action is required on some issues.

At their first meeting in March 1984, the National Coordinators established three working groups on water pollution, air pollution, and hazardous wastes and toxic substances. The second National Coordinators meeting was held in July 1985 and the third meeting should be held soon.

Water Pollution

Cross-border flows of raw sewage from rapidly growing Mexican border cities have long caused concern in California, Arizona, and Texas. The most critical problem, at Tijuana, came to a head in 1984 when Mexico applied for a loan from the Inter-American Development Bank (IDB) to expand water supply and distribution and double the capacity of Tijuana sewage collection. Mexico, for internal political reasons, decided against a joint sewage treatment plant on the US side. In 1985 Mexico indicated that it was planning to finance and build its own wastewater treatment and conveyance facilities in Tijuana.

The United States negotiated assurances (Annex I to the Border Environmental Agreement, IBWC Minute No. 270, and the IDB loan documents) that the Mexican facilities be properly constructed, operated and maintained. Minute 270 was signed in April 1985 and Annex I was signed at the second National Coordinators' meeting in July 1985.

Mexico is now constructing Stage I (western basin) of its Tijuana facilities. US and Mexican officials are discussing certain US concerns about the stability of lagoons being built as part of Stage I. Stage II (eastern basin) works are now being considered by Mexico and are expected to be constructed in mid-1987. We have made it clear to Mexico that Stage II discharge of untreated or treated sewage into the Tijuana River would destroy the US Tijuana River estuary, pollute San Diego beaches and therefore not be acceptable to the United States.

We can expect Mexico soon to present plans to deal with serious water pollution problems of the New River at Mexicali, Baja California/Calexico, California and Naco, Nogales/Naco, Arizona. The problem at Nuevo Laredo remains to be addressed.

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Air Pollution

The United States and Mexico have agreed that uncontrolled SO^2 emissions from copper smelters along the border pose a health hazard to persons on both sides of the border. These smelters include the Phelps Dodge plant at Douglas, Arizona, currently the major source of SO^2 pollution in that area; the Cananea smelter in Sonora, an existing smelter that may be expanded in the future; and the Mexicana de Cobre Nacozari plant, a new facility in Sonora which has begun testing. Without controls these three smelters combined could emit in excess of 1.2 million tons of SO^2 per year.

At the July 1985 National Coordinators meeting it was agreed "that the control of the Douglas and Nacozari smelters should be linked so that interim and permanent controls could be applied." Mexico committed itself to the installation of continuous emissions controls at Cananea before expansion and stated that Mexicana de Cobre has pledged to install a sulfuric acid plant at Nacozari by January 1988. In return, the United States promised to ensure compliance of Phelps Dodge Douglas with Clean Air Act provisions as soon as possible, but no later than January 1988. It was also agreed that prior to application of permanent controls at Douglas and Nacozari, interim measures would be applied to both smelters to monitor and reduce the impact of emissions.

On April 10, 1985, EPA proposed to deny a Phelps Dodge non-ferrous smelter order which would have suspended Arizona SO^2 emissions limitations for the Douglas smelter until January 1, 1988. Such denial along with ongoing discussions between EPA and Phelps Dodge to limit SO^2 emissions from the Douglas smelter during 1986-87, would ensure that the U.S. Government meets its July 1985 commitments to Mexico.

The Air Quality Working Group has also been considering ways to monitor and reduce air pollution in the air basins of Ciudad Juarez/El Paso and Tijuana/San Diego.

Hazardous Wastes and Toxic Substances

The Hazardous Wastes and Toxic Substances Working Group is is acting in four priority areas: (1) transboundary movement of hazardous materials; (2) implementation of Annex II, signed at the July 1985 National Coordinators' meeting, establishing a Joint Contingency Plan to protect against release of hazardous materials along the inland boundary; (3) ocean incineration of hazardous materials; and (4) training to develop a professional cadre of personnel to address these issues.

Mexico has proposed negotiation of an annex to deal with the question of trafficking in hazardous wastes.

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11. Cultural, Scientific, Technological Cooperation

The United States and Mexico have a strong science and technology interrelationship. Mexico is interested in strengthening the contribution US scientific and technological transfer makes to its economic development. US interests are also served by promoting Mexican development. The United States can profit from Mexican technology in some areas, for example the uses of desert vegetation. In addition, Mexico's geographic proximity dictates a mutual interest in conducting research on various subjects of interest to both countries. One example is the presence in one or both countries of animal and plant diseases and pests which can spread and affect the other. Both countries are also interested in science and technology cooperation as a means of maximizing trade opportunities between the two countries.

Most science and technology cooperation is conducted through the private sector. Interchanges between US and Mexican universities and scientific research institutions are highly developed and result in significant benefits to the scientific communities and economies of both countries. US business concerns investing or doing business in Mexico and Mexican commercial activities in the United States greatly contribute to science and technology cooperation between our two countries. As US investment in the Mexican economy increases, US-Mexico science and technology cooperation is strengthened. Most transfer of technology between the United States and Mexico takes place through these private research and commercial activities.

The United States and Mexico conduct their official science and technology cooperation through the US-Mexico Mixed Commission on Scientific and Technological Cooperation, the intergovernmental coordinating and long-term planning body for such cooperation. The Mixed Commission was established under the Agreement on Scientific and Technical Cooperation signed on June 15, 1972. It consists of policy-level representatives from the Mexican Secretariat of Foreign Relations, the Mexican National Council for Science and Technology (CONACYT), and on the US side, the Department of State and the National Science Foundation (NSF), and such other agencies as the two governments consider appropriate. CONACYT and NSF act as the executive agencies of the Mixed Commission. The Mixed Commission meets approximately every two years to "formulate, orient, and review" scientific and technological programs.

The fifth meeting of the Mixed Commission was held December 13-16, 1983 in Washington, D.C. In addition to the Department of State and NSF, US executive branch departments and agencies represented included the Departments of Agriculture, Defense, Energy, Health and Human Services, and Housing and Urban Development, the National Oceanic and Atmospheric Administration, the US Geological Survey, the

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National Parks Service, the Federal Emergency Management Agency, and the National Aeronautics and Space Administration.

New and continuing projects for the 1985-86 program years are in the fields of agriculture, energy, environment, outer space, health and social security, housing and urban development, national park management, hydrometeorological and geological phenomena, oceanography, hydrography, marine science, earth sciences and general sciences.

Mixed Commission activities in 1985-86 have focused on planning for the sixth meeting of the Mixed Commission to be held in Mexico City in 1986. (This meeting was scheduled for December 1985 but was postponed because of the severe September earthquakes in Mexico City.) Mixed Commission officials have been developing a new system for reviewing and approving cooperative research projects as they are proposed instead of at the biennial meetings as had been the practice. Given economic conditions and budget restrictions on both sides, attempts are being made to select those projects which could most effectively manifest the continuing interest and commitment of both governments to strengthen their scientific and technological cooperation.

There are limitations on official US-Mexican cooperation in science and technology. Some of these result from a lack of funds due to budget cutbacks on both sides. CONACYT has some funding for research programs conducted by its federal agencies under the Mixed Commission. NSF has its own research program with CONACYT but no funding for US federal agencies. Those agencies participate in the Mixed Commission with their own resources and such resources are now severely limited. The Department of State has no funds specifically designated for Mixed Commission activities.

The United States attempts to make clear that this intergovernmental program can be conducted only on behalf of the participating US federal departments, not private research institutions or universities in the United States, which are independent of the US government. And finally, bureaucratic relationships between the executive agencies and participating federal departments need to be strengthened.

The intergovernmental Mixed Commission does not compete with the private sector in the magnitude of US-Mexican science and technology cooperation. It does attempt to set an example, to promote useful new directions, and to give coherence to such cooperation. Both governments assign a high priority to this activity. Prospects are good for a continued satisfactory and useful level of cooperation.

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[JOINT COMMITTEE PRINT]

SCIENCE, TECHNOLOGY, AND AMERICAN DIPLOMACY 1985

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Mexico

Because we are neighbors with a long common border, the United States and Mexico share many interests and problems. Varied efforts in the area of joint science and technology have proved useful in providing avenues for possible amelioration or resolution of shared problems, such as common environmental concerns.

The U.S.-Mexico Mixed S&T Commission met in Washington in December 1983 and, among other things, agreed to streamline the administration of the Commission's work. The Commission's coordinating committee reviewed the status of many joint proposals tabled during the meeting along with the implementation of other decisions. As a result of preparatory work, the coordinating committee met in October 1984 to carry out its mandate. Perhaps the most important change was that new projects jointly proposed by the U.S. and Mexico operating agencies can now be approved by the administering agencies. The new decision-making machinery has yet to be proved in practice.

The two countries have ongoing agreements or programs in many areas, including agriculture, forestry, scientific research, health and social services, urban development, the environment, geological and space cooperation. The U.S. cooperating agencies are generally satisfied with the progress of their joint programs.

NRC Cooperation with Mexico

Under the terms of the Exchange of Technical Information and Cooperation in Nuclear Safety Matters between the US Nuclear Regulatory Commission (NRC) and the Comision Nacional de Seguridad Nuclear y Salvaguardias (CNSNS) of Mexico, NRC worked closely with the CNSNS when radioactively contaminated steel products were discovered in the U.S. and traced to Mexican manufacturers using recycled materials containing pellets of Cobalt-60. The pellets came from a radio-therapy device improperly discarded in a scrapyard in Ciudad Juarez, Mexico. NRC arranged for a staff member to travel to Mexico to advise the CNSNS on the cleanup of the CO-60 contaminated scrapyard. Under the NRC-CNSNS Exchange Arrangement for Cooperation, the NRC Office of International Programs was able to expedite the approval of procedures to return steel products to Mexico along with gaining official permission, through official diplomatic channels, for American technical personnel to aid the Mexican recovery effort with an aerial survey of the main areas contaminated by the CO-60 pellets. The NRC effort involved considerable cooperation with DOE, the State Department, and the Pan American Health Organization. The swift action and cooperation of all agencies involved allowed for quick retrieval of contaminated products in the U.S. with minimal impact to the public health and safety.

-- Mexico - Following up on the December 1983 Working Group on Health and Social Services of the U.S.-Mexico Mixed Commission, steps were taken to initiate collaboration in the areas of neurochemistry of affective disorders, maternal and child health, including protein-energy malnutrition and weaning and acute respiratory infections, training in repair and maintenance of biomedical research instrumentation, and selected infectious diseases. The 1983 meeting was the first time that the health field had been included in discussions of the Mixed Commission.

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